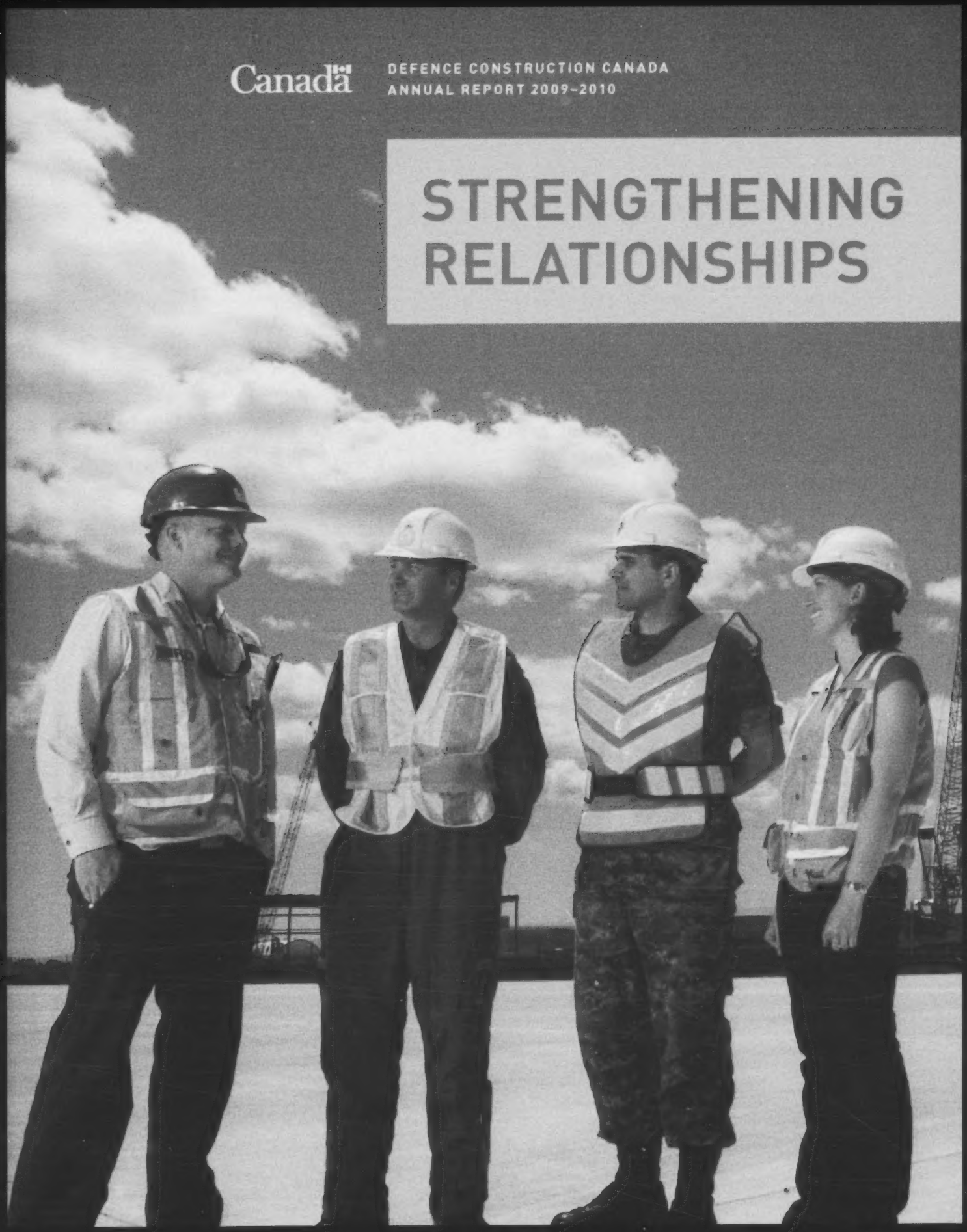
Canada

DEFENCE CONSTRUCTION CANADA
ANNUAL REPORT 2009–2010

STRENGTHENING RELATIONSHIPS



CORPORATE PROFILE

Defence Construction (1951) Limited (commonly known as Defence Construction Canada or DCC) is a Crown corporation that provides innovative and cost-effective contracting, construction management, infrastructure and environmental services for the Department of National Defence (DND), the Canadian Forces (CF) and the defence of Canada. From project needs planning through building decommissioning, our work covers a broad spectrum of activity. DCC's resources are divided among five service lines.

CONSTRUCTION SERVICES

This is DCC's longest-standing service line. The Construction Services team supports the creation, renovation and maintenance of facilities for DND's infrastructure and environment program.

CONTRACT SERVICES

The Contract Services team oversees the procurement of goods and of professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

ENVIRONMENTAL SERVICES

Environmental Services help DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

PROJECT AND PROGRAM MANAGEMENT SERVICES

The Project and Program Management service line advises DND on matters such as building requirements, program planning, and schedule and document control.

REAL PROPERTY MANAGEMENT SERVICES

From needs planning to facility decommissioning, the Real Property Management Services team ensures DND's real property assets are managed efficiently throughout their life cycles.

Cover: DCC awarded one of the largest single-project contracts for the construction of a two bay maintenance hangar designed for the large CC-177 Globemasters. From left: Shawn Stirling, Project Manager, Bird Construction Company, Colonel Dave Cochrane, Wing Commander, 8 Wing Trenton, Major Phil Baker, 8 Wing Construction Engineering Officer and DCC Construction Services Coordinator, Deanna O'Leary.

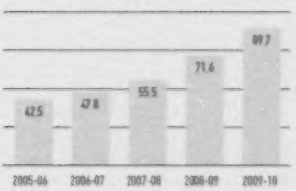
PERFORMANCE HIGHLIGHTS

CONTRACT EXPENDITURES BY REGION – 2009-2010

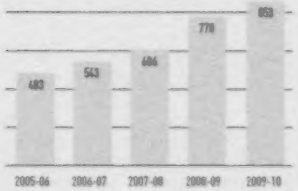
(in millions of dollars)

Region	Construction Services	Professional Services	Total
Atlantic	107.7	18.4	126.1
National Operations	67.2	15.3	82.5
Ontario	193.5	21.3	214.8
Quebec	71.6	7.2	78.8
Western	135.0	19.7	154.7
Deployed Operations	49.6	-	49.6
	624.6	**81.9**	**706.5**

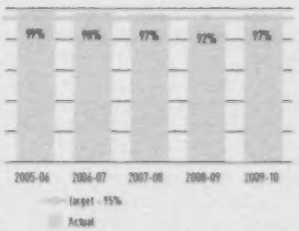
Services revenue
(in millions of dollars)



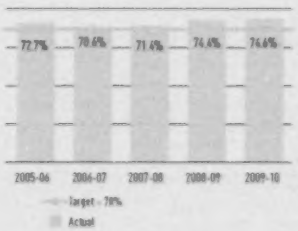
Growth
Number of employees



Client satisfaction



Utilization rate
Percentage of employee hours spent on contract work



Defence Construction Canada
Construction de Défense Canada

www.dcc-cdc.gc.ca

TABLE OF CONTENTS

4 Message from the Chair
5 Message from the President
6 Project Profiles
16 The Organization
17 National Awards
18 Corporate Governance
25 Board of Directors
26 Executive Team
27 Senior Management Team
28 Management's Discussion and Analysis
57 Financial Statements
58 Management Responsibility Statement
59 Auditor's Report

Colleen Nichol, DCC Assistant Manager, Operations with Colby Smith, Construction Services Coordinator at CFB Cold Lake.

DCC successfully delivered a complete temporary accommodation solution to the Canadian Forces for the 2010 Winter Olympic and Paralympic Games in Vancouver.

RESPONSIVE.
EFFECTIVE.
EFFICIENT.

Today's economic environment stresses responsibility, accountability and efficiency. Canada's public sector organizations are increasingly called upon to demonstrate value for taxpayers' money. DCC rises to this challenge. Its mandate is to act efficiently and effectively on behalf of DND. As DND's trusted partners, we respond to its needs with agility and deliver services as required. In everything it does, DCC exemplifies value. We are proud to help DND, the CF and the Government of Canada meet their mandates.

MESSAGE FROM THE CHAIR

As the procurement agent for Canada's defence projects, the challenge for Defence Construction Canada (DCC) is to execute its mandate with the utmost efficiency and economy. We rise to that challenge with vigour, responding quickly and effectively to the needs our client expresses every day.

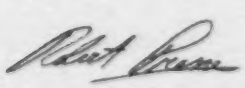
Today's economic climate emphasizes restraint. More so than ever before, we must consider where and how our skills can be used to the greatest effect. Our goal now is twofold: to serve the Department of National Defence (DND) and to support the priorities of the Government of Canada. As part of our strategic planning exercises, DCC collaborates with DND to ensure we meet their needs.

Although the macro-economic climate of the past 18 months presented challenges, it also helped us better accomplish our mission in 2009–10. Last year, DCC tenders attracted more bidders than ever before. As a result, we offered DND better value for money and a wider base of design and construction expertise from which to draw.

As we move forward, we must continue to attract accomplished talent to our workforce. DCC thrives on providing expertise to DND, and we must be careful to identify the right people for this dynamic and professional environment. Human resource management is crucial. Last year, the Board reconstituted one of its committees to provide recommendations on this all-important matter. Each of our directors recognizes the need to attract, recruit and retain top personnel to ensure the Corporation fulfills its mandate effectively.

Recently, Canadians have heard much about the need to save money. I believe the Corporation is well positioned to respond in this new environment. In everything it does, DCC exemplifies efficiency, responsiveness and agility. This is an effective organization that delivers exceptional value for money.

In closing, I would like to express my sincere appreciation to my fellow Board members for their contributions, dedication and hard work in 2009–10. I look forward to working together again in the year ahead.



Robert Presser
Chair of the Board of Directors

MESSAGE FROM THE PRESIDENT

When I took up my new position last September, I met this new challenge with passion and enthusiasm. Since that time, I have learned a great deal about our business and partners and, with the support of our senior management team and Board of Directors, have worked to enhance DCC's ability to serve.

I started my term by travelling across Canada and abroad to meet as many of our employees and partners as possible, especially our partners from the Department of National Defence (DND). During these sessions, I heard much about the strengths of our service delivery model and opportunities to improve it. This kind of valuable insight assists the Corporation to properly allocate resources, improve service offerings, and help DND and the Canadian Forces (CF) achieve their mission objectives.

DCC is accountable to more entities than just its client and employees, however. As a responsible and transparent Crown corporation, we interact continually with our stakeholders and other partners in the public and private sectors. We play a key role in supporting the Government of Canada's Economic Action Plan and the Canada First Defence Strategy. As such, we must always ensure we abide by a fair and competitive procurement process that meets the needs of government and industry.

Growth management is not a new idea at DCC. Again last year, two of our key metrics—our revenues from services and our employee count—increased. Although I believe that the years of DCC's most rapid growth are behind us, I do see strong demand for our services ahead. To ensure our success, we must continue to have the right resources in place to meet our client's needs, we must introduce effective practices to deliver services properly, and we must be ready to add capabilities as our client needs them. Our ability to respond effectively depends on listening to DND and always being ready.

In 2009–10, our senior management team devoted considerable time to ensuring that our corporate strategy reflects our stakeholders' priorities. This was a complex task that will help DCC serve DND more effectively.

As I have been introduced to the Corporation and become more familiar with its workings, I have been struck by the dedication and commitment exhibited by each member of our team. The strength of the relationship we share with DND, the open nature of communications we enjoy with our stakeholders, and the breadth and quality of the services we offer are all direct products of that dedication and commitment. It is clear to me that DCC is the best vehicle to help DND, the CF and the Government of Canada achieve our nation's defence infrastructure objectives.

James S. Paul
President and Chief Executive Officer

PROTECTING CANADIANS

DCC helps DND manage public safety on properties that may contain unexploded explosive ordinance (UXO).

Across Canada, military exercises have left enduring impressions on current and former bases. As a result, the Department of National Defence (DND) estimates that hundreds of sites across the country may host UXO. DND calls these legacy sites. Some are no longer DND property and have been turned over to public authorities and private developers.

Every year, ordinary Canadians discover UXO, which is sometimes live and occasionally deadly. To reduce public safety risks on its active and legacy sites, DND launched its UXO and Legacy Sites Program in 2005, with DCC's support.

UNMATCHED CAPABILITIES

From the program's outset, DCC's role was clear: marry DND's extensive property inventory knowledge with best practices for identifying and mitigating threats from unexploded munitions. DCC was quick to respond to this new mandate. Within two years, its UXO team leads—recruited from among the best minds in this field in the private sector—had built a mandate for this

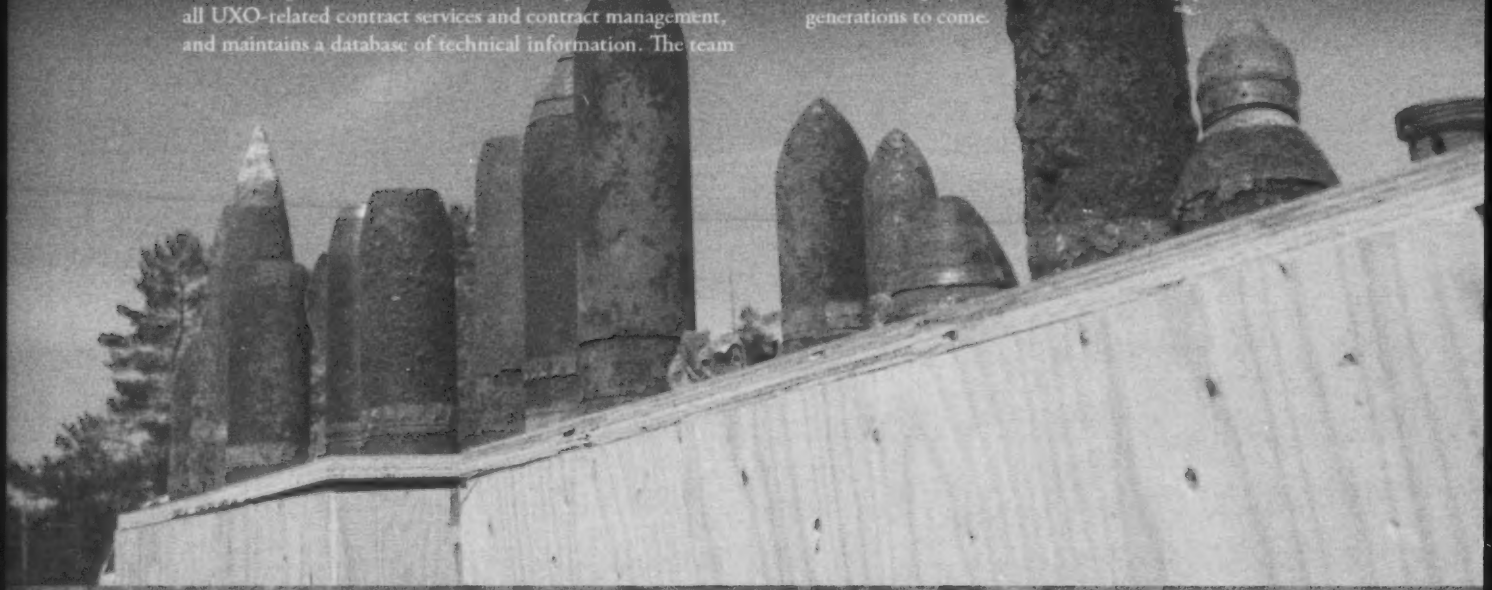
Quebec's Lac Saint-Pierre is one of Canada's largest UXO legacy sites. Experts estimate that more than 10,000 munitions are buried in the lakebed.

emergent service, developed approaches for managing and mitigating risk to the public, and adopted state-of-the-art technology to help map and decommission UXO.

Today, through the UXO and Legacy Sites Program Office, 22 employees—14 from DCC and eight from DND—form the nerve centre of Canada's UXO joint project management team. Supported by UXO personnel across the country, the Ottawa-based group maintains historical records of active and legacy sites, manages a detailed public outreach program, conducts all UXO-related contract services and contract management, and maintains a database of technical information. The team continually measures its performance against the best private sector standards and has developed new contracting practices that are now common across the industry.

SERVING DND WITH PRECISION AND SPEED

DCC's UXO service offering is another example of the Corporation's ability to respond quickly and precisely to its partner's emergent needs. As DCC personnel work side by side with DND experts, they contribute to a unique body of knowledge about Canada's active and legacy UXO sites that will help protect Canadians for generations to come.



THE NUMBER OF KNOWN UXO LEGACY SITES OFF CANADA'S EAST COAST IS

100

WITH 26 MORE ON THE PACIFIC COAST AND SEVERAL HUNDRED ACROSS CANADA'S LAND MASS.

Before new infrastructure can be built to house the new CH-147 Chinook Helicopters at CFB Petawawa, UXO specialists coordinate the decommissioning of old ranges and unearth munitions that date back over 100 years. DCC Environmental Program Manager, Spencer Wilson (opposite page), works with contractors to safely identify and remove potential hazardous materials.

PARTNERING FOR A UNIQUE PROJECT

To deliver the massive Hangar 1 at 8 Wing CFB Trenton efficiently, all construction parties have signed a special partnering agreement.

A construction team must pay special attention to the particular methods it uses to deliver a demanding project. In the case of 8 Wing Canadian Forces Base (CFB) Trenton's new Hangar 1—an 18,536-square-metre facility designed to accommodate three CC-177 Globemaster III aircraft—the construction team wasted no time thinking of novel ways to approach a massive challenge.

Before the first shovel hit the ground, personnel from DND and DCC, general contractors Bird Construction Company, and a

> We have always had a very good relationship with DCC. The team approach we use on their projects helps us get the job done as efficiently and effectively as possible.
>
> **Shawn Stirling, Project Manager, Bird Construction Company**

handful of key sub-trades agreed on a special partnering arrangement. The team's aim was to ensure it delivered Hangar 1 on schedule, on budget and on specification. The partnering agreement articulates the project's mandate and describes the values each company is expected to bring to the jobsite every day. In many ways, the agreement restores the too-often neglected notion of a good faith accord among construction parties. It is a commitment from each company to do its best and to hold its colleagues to the same high standards.

HANGAR 1'S SIZE AND SCOPE MADE IT AN OBVIOUS CHOICE FOR PARTNERING

At a cost of $84.7 million, Hangar 1 is the largest single-building hangar construction project ever undertaken by the CF, and one of the largest single projects DCC has ever awarded. On large and complex projects such as this, DCC encourages its private sector construction teams to sign partnering agreements. The Corporation has managed many projects under this model and appreciates the value—for the construction team and the client—of issuing a formal commitment to quality, fairness and performance.

WITH A HEIGHT OF 10 STOREYS, HANGAR 1 HAS APPROXIMATELY

17,500m³

OF CONCRETE – AN AMOUNT EQUAL TO 43% OF THE CONCRETE USED IN THE CN TOWER.

Scheduled for completion in fall 2011, DCC staff at 8 Wing Trenton is working with DND to construct the Maintenance Hangar 1 facility designed for the CC-177 Globemaster aircraft. As of spring 2010, approximately one-third of the 3,000 tonne steel structure has been completed to accommodate two vertical lift fabric doors weighing 49,000 kg each.

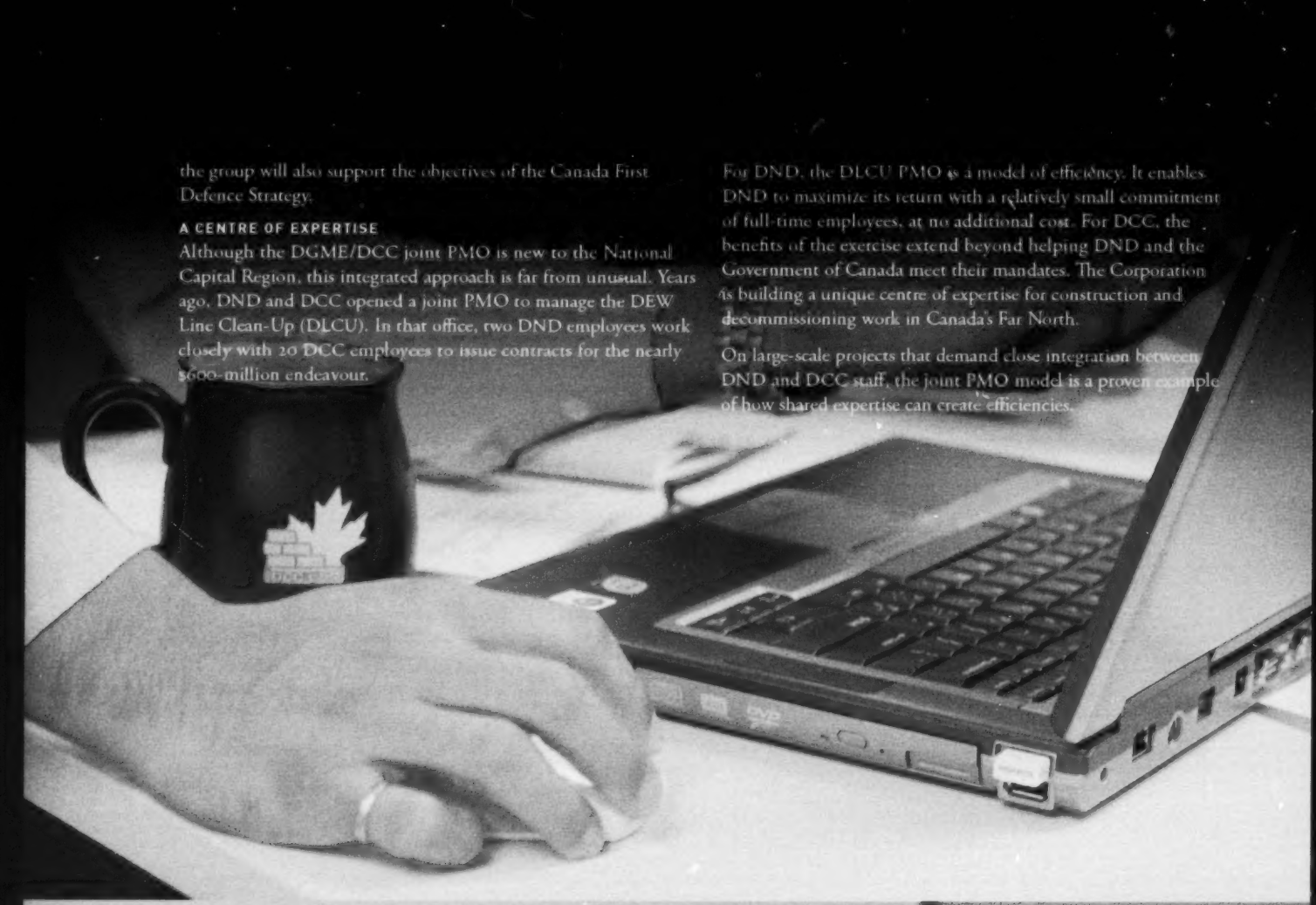
the group will also support the objectives of the Canada First Defence Strategy.

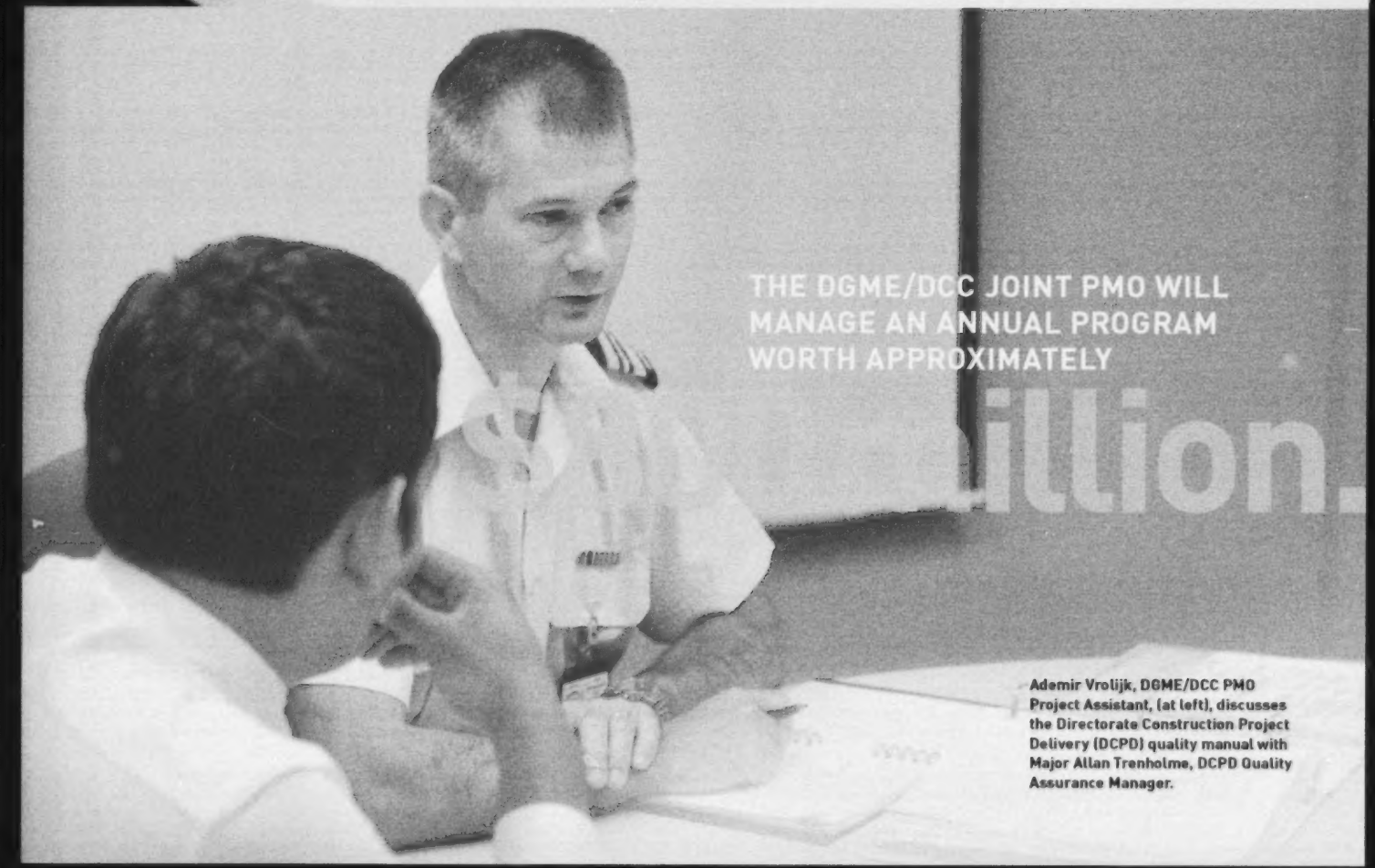
A CENTRE OF EXPERTISE

Although the DGME/DCC joint PMO is new to the National Capital Region, this integrated approach is far from unusual. Years ago, DND and DCC opened a joint PMO to manage the DEW Line Clean-Up (DLCU). In that office, two DND employees work closely with 20 DCC employees to issue contracts for the nearly $600-million endeavour.

For DND, the DLCU PMO is a model of efficiency. It enables DND to maximize its return with a relatively small commitment of full-time employees, at no additional cost. For DCC, the benefits of the exercise extend beyond helping DND and the Government of Canada meet their mandates. The Corporation is building a unique centre of expertise for construction and decommissioning work in Canada's Far North.

On large-scale projects that demand close integration between DND and DCC staff, the joint PMO model is a proven example of how shared expertise can create efficiencies.





THE DGME/DCC JOINT PMO WILL MANAGE AN ANNUAL PROGRAM WORTH APPROXIMATELY illion.

Ademir Vrolijk, DGME/DCC PMO Project Assistant, (at left), discusses the Directorate Construction Project Delivery (DCPD) quality manual with Major Allan Trenholme, DCPD Quality Assurance Manager.

SHARING EXPERTISE, REALIZING EFFICIENCIES

Joint DND/DCC project management offices ensure a streamlined approach to project delivery.

When the Director General of Military Engineering (DGME) approached DCC with a request to issue a large volume of construction contracts in a short period of time, DCC's best minds quickly arrived at a special solution: a shared office that would enable the two entities to issue contracts much faster.

Scheduled to open in summer 2010 in Ottawa, the new DGME/DCC joint Program Management Office (PMO) will enable DCC and the DGME to integrate their staff and processes to improve productivity and service delivery. And because personnel from the office will put construction teams to work across the country,

Melanie Pouliot, Contract Services Team Leader with the DGME/DCC PMO (at left) with Samantha Roeske, Manager, Business Operations in Ottawa.

The joint Program Management Office will house 210 employees from DND and 50 from DCC.

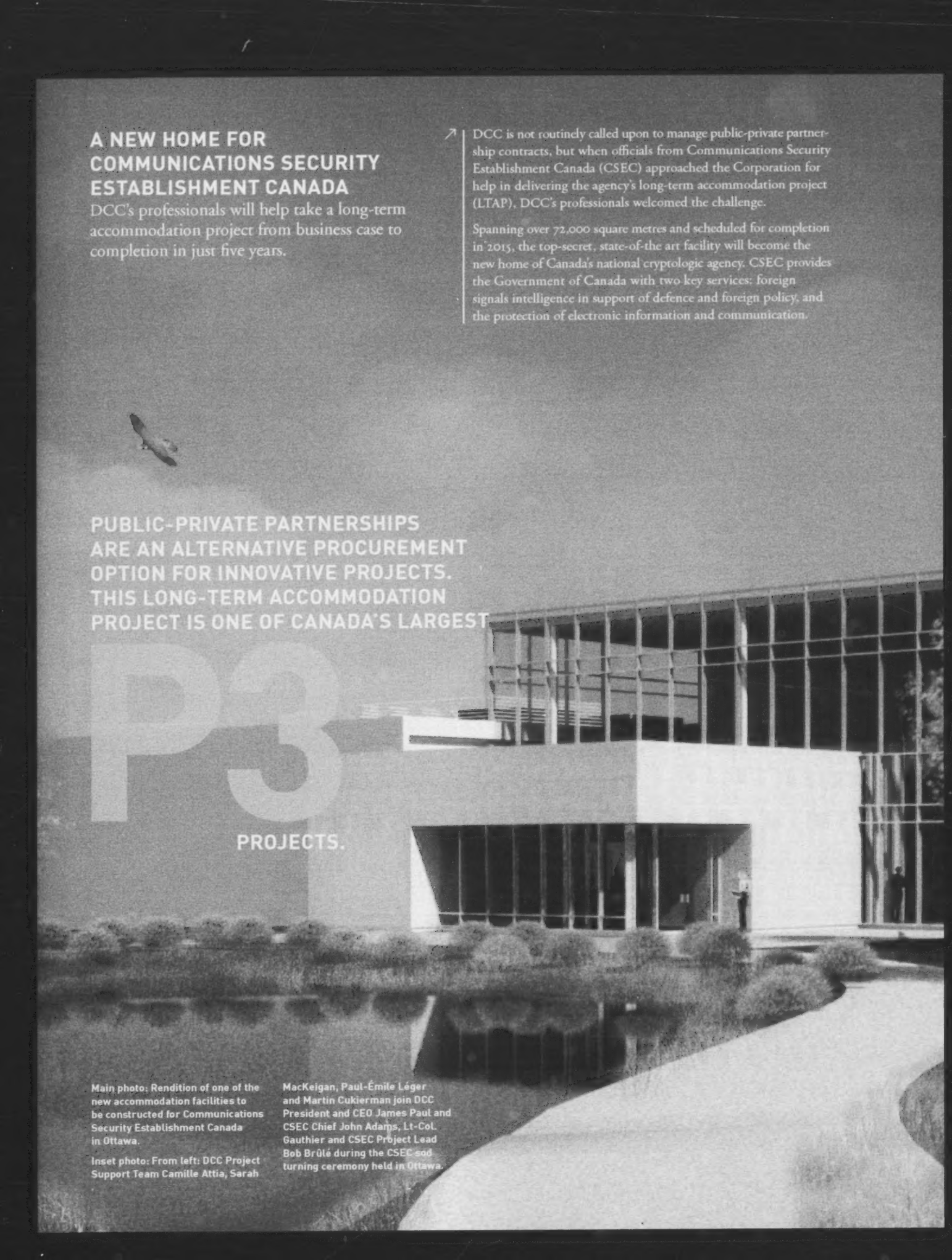
A NEW HOME FOR COMMUNICATIONS SECURITY ESTABLISHMENT CANADA

DCC's professionals will help take a long-term accommodation project from business case to completion in just five years.

DCC is not routinely called upon to manage public-private partnership contracts, but when officials from Communications Security Establishment Canada (CSEC) approached the Corporation for help in delivering the agency's long-term accommodation project (LTAP), DCC's professionals welcomed the challenge.

Spanning over 72,000 square metres and scheduled for completion in 2015, the top-secret, state-of-the art facility will become the new home of Canada's national cryptologic agency. CSEC provides the Government of Canada with two key services: foreign signals intelligence in support of defence and foreign policy, and the protection of electronic information and communication.

PUBLIC-PRIVATE PARTNERSHIPS ARE AN ALTERNATIVE PROCUREMENT OPTION FOR INNOVATIVE PROJECTS. THIS LONG-TERM ACCOMMODATION PROJECT IS ONE OF CANADA'S LARGEST P3 PROJECTS.



Main photo: Rendition of one of the new accommodation facilities to be constructed for Communications Security Establishment Canada in Ottawa.

Inset photo: From left: DCC Project Support Team Camille Attia, Sarah MacKeigan, Paul-Émile Léger and Martin Cukierman join DCC President and CEO James Paul and CSEC Chief John Adams, Lt-Col. Gauthier and CSEC Project Lead Bob Brûlé during the CSEC sod turning ceremony held in Ottawa.

DCC'S EXPERTISE GIVES LTAP A MUCH-NEEDED BOOST

With its Ottawa-area premises badly overcrowded, CSEC realized years ago that, to fulfill its mandate more efficiently, it needed a new, purpose-built facility. The agency struggled for years, however, to develop a construction plan using conventional procurement methods. It opted to restructure the project delivery and management model under a public-private partnership so that private industry could design, construct and maintain the building more efficiently. CSEC officials approached DCC because of the Corporation's highly specialized construction procurement and contract management expertise, and its proven track record in delivering complex defence projects quickly.

To date, DCC has played an integral role in the LTAP procurement process. The Corporation quickly appointed a team responsible for LTAP and opened a dedicated project management office where staff from DCC and CSEC could work together more effectively. Within 20 months, DCC's experts will have helped to take the project from concept to award—a noteworthy feat for a 30-year, highly specialized, design-build-finance-maintain contract.

CSEC contributes significantly to Canada's own security and that of the global community.

ACROSS CANADA AND AROUND THE WORLD, DCC SERVES

DCC supports the Government of Canada's objectives through deployed operations worldwide.

Throughout its history, DCC has sent teams of employees to the CF's theatres of operation worldwide. These men and women have carried out a variety of tasks related to building Canadian-owned infrastructure abroad. In doing so, they have played an important role in fulfilling the mandates of the CF, DND and the Government of Canada.

In 2007, DCC took the bold step of formalizing its support for the CF at the Kandahar Air Field in Afghanistan. Previously, DCC deployed support personnel in theatre as required by the clients on a per project basis. To further help the CF accomplish

SINCE 2001 OVER

DCC EMPLOYEES HAVE BEEN RECOGNIZED FOR SERVING IN AN OPERATIONAL THEATRE.

Although more than 10,400 kilometres separate Cold Lake, Alberta, and Kandahar, Afghanistan, DND employees can count on the same high standards of service at both locations, thanks to DCC's deployed operations.

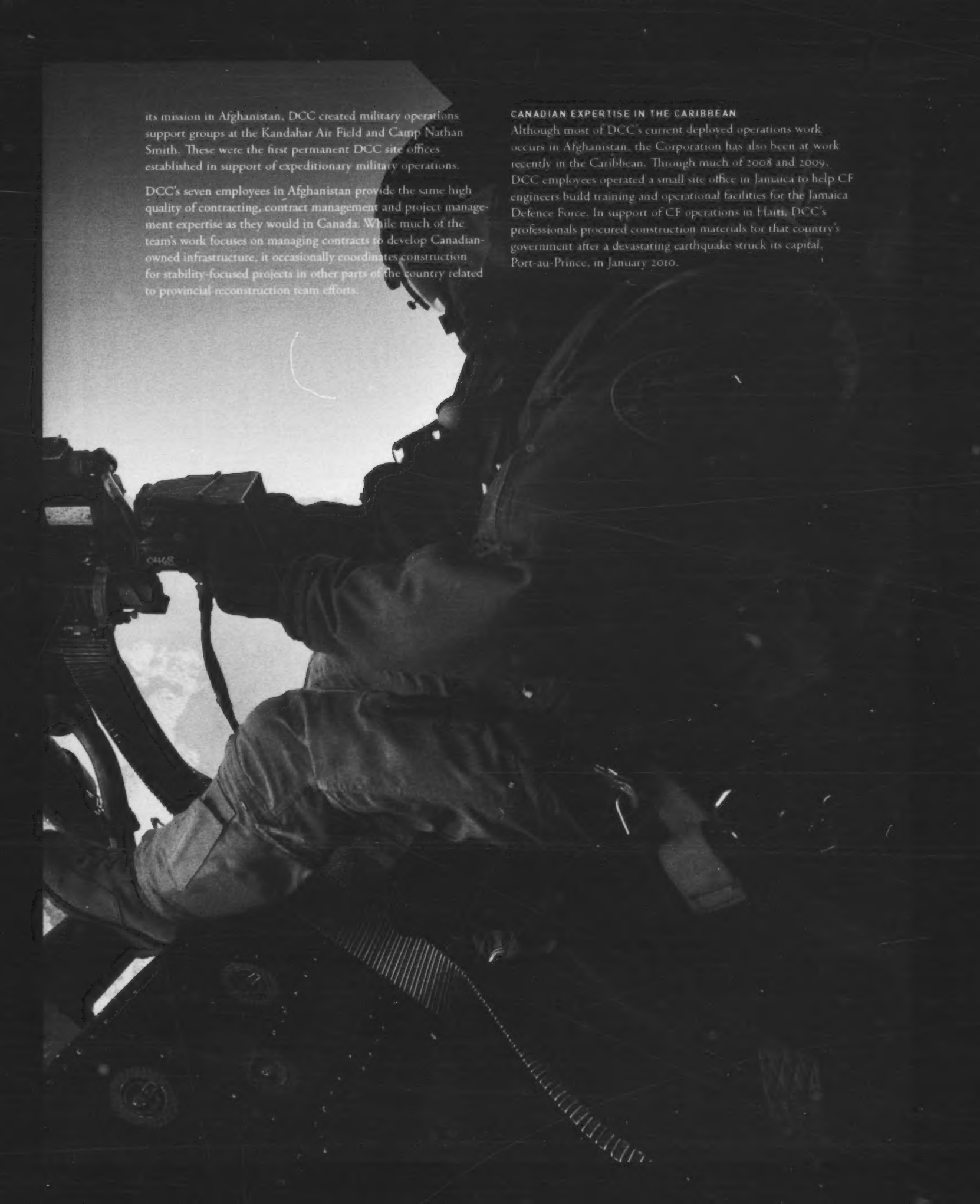
Image source: Department of National Defence

its mission in Afghanistan, DCC created military operations support groups at the Kandahar Air Field and Camp Nathan Smith. These were the first permanent DCC site offices established in support of expeditionary military operations.

DCC's seven employees in Afghanistan provide the same high quality of contracting, contract management and project management expertise as they would in Canada. While much of the team's work focuses on managing contracts to develop Canadian-owned infrastructure, it occasionally coordinates construction for stability-focused projects in other parts of the country related to provincial reconstruction team efforts.

CANADIAN EXPERTISE IN THE CARIBBEAN

Although most of DCC's current deployed operations work occurs in Afghanistan, the Corporation has also been at work recently in the Caribbean. Through much of 2008 and 2009, DCC employees operated a small site office in Jamaica to help CF engineers build training and operational facilities for the Jamaica Defence Force. In support of CF operations in Haiti, DCC's professionals procured construction materials for that country's government after a devastating earthquake struck its capital, Port-au-Prince, in January 2010.



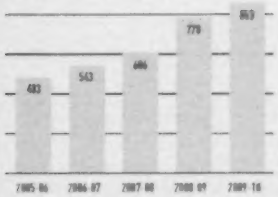
THE ORGANIZATION

EMPLOYEES

DCC's chief asset is its people, and its corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of professional, technical and administrative people. Other specialists in finance, human resources, information technology, communications and administration support the operations workforce.

At year-end, DCC had 853 employees, an increase of almost 10% from 778 in 2008–09.

Number of employees



DCC has many longstanding employees who have enjoyed exciting careers with the Corporation. Each year, DCC recognizes those employees who have achieved employment milestones. In 2009–10, 15 employees marked 10 years of service with DCC, four employees marked 20 years of service, two employees marked 25 years of service, one employee marked 30 years of service and two employees marked 35 years of service. This past year, two new length-of-service awards were added to recognize DCC employees for their years of continued and dedicated service: 150 employees were retroactively recognized for five years of service, and 19 employees for 15 years of service.

DCC's internal career development practices helped 136 employees advance their careers through promotions, transfers, relocations and acting assignments during the past year. Twenty-six employees volunteered for foreign deployment in Afghanistan and for northern assignments for DEW Line projects. DCC and DND benefit from the transfer of skills among operating locations as employees hone their skills and test themselves. In addition, DCC expands its collective base of knowledge and experience.

CORPORATE SERVICES

To help DCC deliver services, the Corporate Services group at the Corporation's head office in Ottawa provides support services to the entire organization and contract financial administration services to the client. These services include human resources, financial and accounting, information technology, communications, and administrative support.

The Corporation's significant growth in recent years has presented the Corporate Services group with many challenges in building and maintaining adequate infrastructure to handle the growing demand for support services. The group has met these challenges by building a strong and dedicated team of employees, technicians and professionals from a variety of disciplines. The group has also invested in such things as new office space, information systems and technologies, administrative tools, and office equipment to meet changing and growing business requirements. In addition, the Corporate Services group has put in place business and operational policies and practices to create an effective internal control system that safeguards corporate assets, and supports employees and service delivery.

Head office and national award recipients. From left to right: Ganesh Bhandari, Lynda Lenfesty, Ed Sorensen, Kelly Marchand, Victoria Neary, Shawn MacDonald, Rick Gudz, Mark Smith, Gérald Lasnier, Scott Carruthers, Glen Gillan, Yvan Goulet and Michel Vallée.

NATIONAL AWARDS 2009–2010

DCC proudly recognizes the contributions of all employees to the Corporation's success. The National Awards program, in particular, is a celebration of the very best accomplishments of the men and women who drive DCC forward.

The President's Award is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation. This year's recipient is Gérald Lasnier, Quebec Region.

The Service Development Award recognizes employees whose actions best contribute to the development or promotion of client services and the service delivery team. The Geographic Information Systems (GIS) Team—Shawn MacDonald, Yvan Goulet, Mark Smith and Michel Vallée—is this year's recipient.

The Corporation presents its Customer Satisfaction Award to the employee or employees who have consistently provided exemplary customer service over the years. This year's recipient is Team Operation Podium, which provided temporary accommodation facilities for DND personnel at the Olympics. The team included Tony Ambrosio, Veronica McEllister, Rose Montgomery, Perry Wallace, Derek Fraser, Huffman So, Graham Anderson, Jason Allison, Brian Fraser, Genevieve Marquette, Rick Gudz, Elizabeth Mah, Margaret Small, Brad Trann, Scott Carruthers and Stéphanie Leblond.

The Innovation Award recognizes employees who deliver innovative, value-added solutions to DCC's clients. The recipients of this year's award are Victoria Neary and Lynda Lenfesty, Western Region.

The Robert Graham Memorial Award is presented to the employee who makes a special contribution to the improvement of workplace safety or environmental protection. Kelly Marchand, Atlantic Region, is the 2009–10 recipient.

The General Service Medal is awarded to Canadian citizens, other than members of the CF, who deploy outside of Canada to provide direct, full-time support to operations in the presence of an armed enemy. DCC is proud of its employees who accept the challenge of serving Canada and DND's deployed operations. In 2009–10, the following 16 employees received the General Service Medal for serving in Kandahar, Afghanistan, in support of Operation Athena:

Ron Bachelder
Christian Bourgault
Jan Brodeur
Jim Burke
Larry Clinton
Ruth Dicks
Gary Gesner
David Harvey
Shawn Helmerson
Dan Heslinga
Michelle McAuley
Kevin Nelson
Stéphanie Tanguay
Ray Tourville
Brigitte Trau
Kiel Wilson

Kiel Wilson was also awarded a JTF-A Air Wing Commander's commendation for his work on the airfield development projects in Kandahar.

CORPORATE GOVERNANCE

Part X of the *Financial Administration Act* sets out the accountability and governance structure for DCC and its Board of Directors. DCC is also subject to other legislation, such as the *Conflict of Interest Act, Public Servants Disclosure Protection Act, Access to Information Act* and *Privacy Act*, and receives corporate governance policy and practice guidance from the Government of Canada through the Treasury Board of Canada Secretariat.

The Board of Directors reports to Parliament through the Minister of Public Works and Government Services and is accountable to this Minister for the stewardship and governance of the Corporation. Members of DCC's Board are appointed by Governor in Council on the recommendation of the Minister. The Board members are to be appointed based on the skills and expertise that DCC requires, as articulated in the Board Competency Profile, which is available on DCC's website.

DCC created the Board Competency Profile pursuant to the standards set by the Privy Council Office regarding Board member roles, competencies and experiences. The key roles and responsibilities of members of DCC's Board include governance, strategic planning, risk assessment and management, internal controls, performance management and evaluation, and management continuity. DCC's Board members have a good balance of public and private sector experience and knowledge of fields relevant to the Corporation's business such as engineering, construction, law, finance, and public administration.

DCC's Board is made up of seven members, with one vacancy. The two women and four men who make up the Board hail from across Canada and are all independent of DCC management, except for DCC's President. The Board members are led by a Chair who is responsible for the effective functioning of the Board as it carries out its overall duties and responsibilities. Board meetings are scheduled to minimize associated expenses, which is in keeping with current Government of Canada expectations.

To ensure that the duties and responsibilities of the Board are understood, and that the Board provides appropriate oversight of DCC, the members rely upon a Board of Directors Charter. This Charter is reviewed regularly by the Board to ensure it continues to be relevant. The pertinent responsibilities outlined in this Charter are noted in the following section, along with some key 2009–10 Board activities.

The Board also fulfills some of its oversight functions by delegating a number of its responsibilities to Board Committees. There are two Committees of the Board: an Audit Committee and a Governance and Human Resources Committee. These Committees are responsible for key corporate issues in assisting the Board in its oversight. Each Committee has a Charter, the details of which are outlined on page 21 along with the activities of the Committee during this reporting period.

STRATEGIC PLANNING

The meetings of the Board are scheduled to maximize the oversight of DCC's strategic planning process. Two meetings are held in the fall. At the first meeting, matters of broad importance are discussed, such as key priorities of the Government of Canada and how DCC's strategic objectives relate to these priorities. The guidance arising out of these discussions is relied upon by DCC management in their strategic planning sessions and is used in the drafting of DCC's Corporate Plan. At the second meeting, the Board reviews and approves the Corporate Plan, as well as the annual operating and capital budgets. In the spring, the Board reviews and approves DCC's Annual Report.

GOVERNANCE AND PUBLIC POLICY OBJECTIVES

The Board reviews and evaluates the principal areas of risk for DCC, as well as current public policy objectives, to ensure that DCC management is maintaining an appropriate balance between public policy objectives and relevant private sector business practices. Each year DCC's senior management identifies key corporate risks and outlines them in DCC's Corporate Plan as well as in the Annual Report. In 2009–10, the Board received regular reports regarding DCC's risk management framework and ensured that the framework remained appropriate for the Corporation. Further information on DCC's risk management framework may be found in section 5.0.

Also, the Board reviewed and approved the agenda and format for DCC's 2009–10 Annual Public Meeting. Since this event is scheduled to take place on May 27, 2010, it will be reported on in the 2010–11 Annual Report.

VALUES AND ETHICS

In promoting a culture of ethical business conduct at DCC, the Board of Directors ensures DCC maintains and regularly updates its ongoing programs and policies related to values and ethics. The Board has endorsed DCC's Code of Business Conduct, which is based on best practices in accountability, transparency and fairness. The Board reviews this document annually and, along with receiving an annual report on conflict of interest issues related to DCC's people, the Board is notified of relevant employee issues as they arise. In addition, all Board members sign an annual declaration pertaining to their compliance with the *Conflict of Interest Act*.

AUDIT

The Board relies upon an outside firm under contract with DCC to provide internal audit services and to assess the integrity of DCC's internal controls through regular internal audits. The Board also receives regular reports from DCC senior management and from the Office of the Auditor General, DCC's external auditor. The 2009–10 period was an extremely busy time for audit related matters and further information on these activities may be found under the Audit Committee section below.

MANDATE

The Board regularly reviews DCC's statutory mandate. In 2009–10 the Board acknowledged that DCC continues to meet its mandate in an effective manner. In the fall of 2009, DCC's Chair received the statement of priorities and accountabilities (also referred to as a letter of expectations) from the then Minister of Public Works and Government Services and elements of this document were incorporated into DCC's Corporate Plan.

SUCCESSION

The Board oversees DCC's succession planning and management development to ensure that the Corporation identifies, maintains and develops the skills required. In preparation for the retirement of DCC's previous President, in early 2009 the Selection Committee, made up of the Chair of the Board and the Chair of the Nominating Committee and a representative from the Prime Minister's Office, the Privy Council Office and the Office of the Minister of Public Works and Government Services, worked towards the nomination of a new President and Chief Executive Officer. The Minister of Public Works and Government Services announced an appointment in August of 2009.

In this reporting period the Board reviewed and approved the creation of a new Senior Vice-President position within DCC's executive management group as well as the hiring of a new Vice-President, Operations.

There was a Board vacancy at the end of the fiscal year. The Board members are currently working to fill this position and have based proposals on DCC's Board profile requirements.

PERFORMANCE

The Board monitors and evaluates DCC's performance against the strategic initiatives outlined in the Corporate Plan. In the fall of 2009, after providing initial input, the Board reviewed and approved DCC's 2010–11 to 2014–15 Corporate Plan, in which document specific strategic initiatives and performance measures for the next five years were outlined, as well as the operating and capital budgets for 2010–11. The Board also acknowledged that DCC was successful in clarifying and defining the performance measures it used for previous Corporate Plans. In particular, the Board members noted the effort of DCC's President and CEO and the entire executive management group in identifying key corporate initiatives and linking these initiatives to the more clearly defined corporate performance measures.

COMMUNICATIONS

In January 2010 a new Minister of Public Works and Government Services was appointed. The Chair of DCC's Board of Directors is responsible for maintaining communications with the Minister and actively encourages the establishment and maintenance of relationships amongst all of DCC's stakeholders.

To promote stakeholder relationships and increase Board member exposure to DCC operations, Board meetings are alternated between DCC's head office in Ottawa and regional locations. The September 2009 Board meeting was held at Canadian Forces Base Shearwater and the March 2010 meeting was held at Canadian Forces Base Edmonton. At each of these bases, the Board members were able to meet with DCC personnel as well as representatives from DND and the CF, visit the sites where DCC related work was taking place, and see some of the activities in which DCC's people are involved on behalf of DND and the CF.

In the past fiscal year, DCC's three newly appointed Board members participated in DCC's initial orientation program and, along with other Board members, received regular briefings about DCC's programs and services as well as presentations on subjects of particular interest at each Board meeting. These activities served to increase the Board members' knowledge of DCC and to solidify their understanding of DCC and its operations.

COMMITTEES OF THE BOARD OF DIRECTORS

DCC's Board has two Board Committees: the Audit Committee and the Governance and Human Resources Committee. During 2009-10 there was also a Nominating Committee which was amalgamated with the Governance and Human Resources Committee. All members of the Board of Directors sit on at least one Committee. The following section outlines the Charters of each of these Committees, along with notable activities of 2009–10. The Board and the Audit Committee hold an *in camera* session at each meeting, and the Governance and Human Resources Committee meets *in camera* as required.

AUDIT COMMITTEE

The mandate of the Audit Committee is to assist the Board in its oversight responsibilities related to DCC's annual financial statements and reporting, internal controls, financial accounting principles and policies, internal and external audit processes, and compliance programs. All Audit Committee members are independent of management and have financial literacy, as per the *Financial Administration Act*. This Committee met four times during 2009–10.

Chair: *Kris Matthews. Members: Shirley McClellan and Marc Ouellet.*

Key issues: *This Committee reviewed and approved the 2010–11 audit plan of DCC's internal audit consultants; reviewed and approved all audit reports issued by DCC's internal audit consultants as well as follow-up reports on the status of recommendations made therein; reviewed DCC's transition to the new International Financial Reporting Standards; approved the Office of the Auditor General's annual audit plan; reviewed the proposed* Guidelines for Audit Committees of Crown corporations and other Public Enterprises *of the Treasury Board of Canada Secretariat and participated in the related consultation process; and reviewed the proposed* Standard on Quarterly Financial Reports for Crown corporations, *also of the Treasury Board of Canada Secretariat.*

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

The Governance Committee was reconstituted into the Governance and Human Resources Committee in March of 2010. The roles and responsibilities of the Nominating Committee were subsumed by this Committee. The decision to make these changes was taken after the Board reviewed the practices of several other Crown corporations and considered what was most appropriate for DCC's corporate governance needs.

In relation to governance matters, this Committee is responsible for the development of DCC's approach to corporate governance. It evaluates DCC's corporate governance practices to ensure they are in line with current best practices, including those of the Treasury Board Secretariat, other Crown corporations and private companies. This Committee also oversees the annual board self-assessment process, which includes questions related to Committees and to individual directors.

Regarding human resources matters, the duties of this Committee include ensuring that DCC's core human resources policies are sound and appropriate for the Corporation and that appropriate related processes are in place. Also, this Committee is responsible for overseeing the performance management process for the President and CEO as well as the annual performance assessment of DCC's executive management group.

This Committee also participates in the nomination and appointment process for Order in Council appointments and ensures that the Board Competency Profile is kept up to date.

This Committee met once during this reporting period.

Chair: *William Pentney. Members: Robert Presser and James Paul (ex officio).*

Key issues: *This Committee reviewed its new Charter and recommended it for approval by the Board of Directors; oversaw the annual Board Assessment and individual director survey, established a plan to*

implement recommendations for improvement, and reported on the results to the Minister; and assessed the membership of the Committees of the Board and provided recommendations for appropriate representation to the Board.

NOMINATING COMMITTEE

As part of its mandate, the Nominating Committee advises the Minister of Public Works and Government Services regarding the appointment and re-appointment of the President and Chief Executive Officer. Before this Committee was amalgamated with the reconstituted Governance and Human Resources Committee, one meeting was held in 2009–10 as part of the recruitment and selection process for a new President and CEO for the Corporation.

Chair: *Nancy Penner. Member: Ross Nicholls.*

Key issues: *This Committee participated in the selection process for DCC's new President and CEO.*

ATTENDANCE FOR BOARD OF DIRECTORS AND COMMITTEES MEETINGS APRIL 1, 2009 TO MARCH 31, 2010:

	BOARD MEETINGS	AUDIT COMMITTEE	GOVERNANCE AND HUMAN RESOURCES COMMITTEE	NOMINATING COMMITTEE
Callahan, Lloyd (1)	3/4			
Matthews, Kris	5/5	4/4		
McClellan, Shirley	4/5	3/4		
Ouellet, Marc (2)	4/4	3/3		
Nicholls, Ross (3)	2/2			1/1
Paul, James (4)	3/3		1/1	
Penner, Nancy (5)	2/2			1/1
Pentney, William (6)	3/3		1/1	
Presser, Robert (7)	5/5	1/1	1/1	

(1) Mr. Lloyd Callaghan was a member of the Board until January 1, 2010.
(2) Mr. Marc Ouellet was appointed to the Board as of May 14, 2009, and became a member of the Audit Committee on October 21, 2009.
(3) Mr. Ross Nicholls was a member of the Board until June 12, 2009.
(4) Mr. James Paul was appointed President and CEO of DCC starting September 8, 2009.
(5) Ms. Nancy Penner was a member of the Board until August 4, 2009.
(6) Mr. William Pentney was appointed to the Board as of August 4, 2009.
(7) Mr. Robert Presser was replaced by Mr. Marc Ouellet as a member of the Audit Committee on October 21, 2009.

The Privy Council Office's document, *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, dated October 2000, sets out the guidance for retainer and per diem amounts for Crown corporation board members. In the Privy Council's February 2010 document, *Performance Management Program Guidelines for Chief Executive Officers of Crown corporations*, DCC is listed in Group 3.

	ANNUAL RETAINER	PER DIEM
Callahan, Lloyd	$ 3,800	$ 300
Matthews, Kris	$ 3,800	$ 300
McClellan, Shirley	$ 3,800	$ 300
Ouellet, Marc	$ 3,800	$ 300
Penner, Nancy	$ 3,800	$ 300
Pentney, William (1)	n/a	n/a
Presser, Robert	$ 7,500	$ 300

(1) Mr. William Pentney is the Associate Deputy Minister of National Defence and, as such, is not eligible to receive additional remuneration as a member of DCC's Board of Directors, which is a part-time Governor in Council appointment.

Two members of DCC's Board of Directors retired in this reporting period: Ms. Nancy Penner in July 2009; and Mr. Lloyd Callahan in January 2010. Their commitment and dedication to DCC during their tenure was commendable. Mr. Ouellet was appointed to DCC's Board of Directors on May 14, 2009. Mr. Pentney was appointed to DCC's Board on August 4, 2009.

Mr. James S. Paul was appointed DCC's President and Chief Executive Officer and a Board member as of September 8, 2009.

BOARD OF DIRECTORS

MR. ROBERT PRESSER
Chair of the Board

Mr. Presser is Vice-President of Acme Engineering Products Ltd. in Montreal. He has extensive experience in corporate governance, as well as in mergers and acquisitions for large Canadian corporations.

MS. KRIS MATTHEWS

Ms. Matthews is the Managing Partner of The Matthews Group, LLP in Calgary. As a Certified Management Accountant (CMA) and business consultant she has served on the Boards of Directors of numerous private sector organizations.

MS. SHIRLEY MCCLELLAN

Ms. McClellan was a Member of the Alberta Legislature from 1987 to 2007 and has held numerous senior cabinet positions. She is currently a Distinguished Scholar in Residence at the University of Alberta and is the Chair of the Board of Horse Racing Alberta.

MR. MARC OUELLET

Mr. Ouellet is an aerospace and security consultant with CIRRUS Research Associates Inc. He retired from the Canadian Forces after a 32 year career with the Air Force where he held seven command appointments.

MR. JAMES S. PAUL

Mr. Paul has 30 years of business experience with a variety of international companies. He has a Law degree from the University of Ottawa and, prior to his appointment with DCC, he served as Chair of the Canada Science and Technology Museum Corporation's Board of Trustees.

MR. WILLIAM F. PENTNEY

Mr. Pentney is the Associate Deputy Minister of the Department of National Defence. He holds a Bachelor of Arts degree from Queen's University as well as a Law degree and a Master's degree in Public Law from the University of Ottawa.

EXECUTIVE TEAM

JAMES S. PAUL, LL.B
President and Chief Executive Officer

Mr. Paul was appointed to the position of President and Chief Executive Officer in September 2009. His career has spanned almost 30 years with senior management roles in large Canadian technology firms. Before his appointment to DCC, Mr. Paul served as President of a Canadian technology company, and as Chair of the Canada Science and Technology Museum Corporation. He holds a Law degree from the University of Ottawa.

RONALD DE VRIES, P.ENG
Senior Vice-President, Operations

Mr. de Vries joined DCC in 1983 after a number of years with a private consulting firm. He has been involved in the full spectrum of DCC's operations and has led a number of strategic initiatives that have contributed to the development of the Corporation's services and practices. He holds a Bachelor of Science (Civil Engineering) degree from Queen's University and is active on several committees within industry and government.

STEVE IRWIN, P.ENG., CD
Vice-President, Operations

Mr. Irwin joined DCC in 2006 after serving 36 years with the CF, concluding his tenure as Chief Military Engineer of the CF at the rank of Brigadier-General. He held the appointment of CEO of the Canadian Forces Housing Agency immediately before arriving at DCC. He graduated from the Royal Military College with a Bachelor of Engineering (Mechanical) degree.

RANDY MCGEE, P.ENG., GSC
Vice-President, Operations

Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector. He has extensive experience in managing large construction, consultant and design-build projects. Mr. McGee holds a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba and is a Canadian Construction Association Gold Seal Certified Project Manager.

ANGELO OTTONI, CA
Vice-President, Corporate Services, Chief Financial Officer and Treasurer

Mr. Ottoni joined DCC in 2001 after working in the technology industry and with an international accounting firm. A certified chartered accountant, he earned a Bachelor of Commerce degree from Concordia University and a Public Accountancy diploma from McGill University.

SENIOR MANAGEMENT TEAM

JOHN GRAHAM, P.ENG., PMP
Director, Ontario Region

Mr. Graham graduated from Lakehead University in 1988 with a Bachelor of Engineering (Civil) degree. He joined DCC as a Junior Engineer in the Kingston office and has worked in numerous positions and on many sites. In 1998, he attained his designation as Project Management Professional and the following year became the Area Engineer for Ontario Region. Mr. Graham was appointed as the Director, Ontario Region in 2009.

STEPHEN KARPYSHIN, P.ENG.
Director, Western Region

Mr. Karpyshin joined DCC in 1988 and has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. A graduate from the University of Manitoba in Physics and Civil Engineering, he is a member of the Association of Professional Engineers and Geoscientists (Manitoba), the Association of Professional Engineers, Geologists, and Geophysicists of Alberta as well as the Alberta Federal Council.

MARC LANTEIGNE, P.ENG., ING.
Director, Quebec Region

Since joining DCC in 1988, Mr. Lanteigne has worked in every region on projects including the construction of short-range radar sites in Labrador. He was the Western Region Area Engineer prior to assuming responsibility for the Quebec Region in 2001. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick and is a member of l'Ordre des Ingénieurs du Québec and the Association of Professional Engineers and Geoscientists of New Brunswick.

DAVID MCCUAIG, PMP, MPM
Director, National Capital Region

Mr. McCuaig joined DCC in 2000 and oversees large projects including support to deployed operations and the DEW Line Clean-Up project. With over 20 years of experience in project management and construction with industry and government, he has taught project management and construction at the graduate college level. Mr. McCuaig earned a Master of Project Management degree from the Université du Québec, and holds a Project Management Professional designation.

MÉLINDA NYCHOLAT, P.ENG., PMP
Director, Contract Services

Ms. Nycholat joined DCC in 1988 as a Junior Engineer in Gagetown and has managed large projects across the country. Ms. Nycholat holds a Bachelor of Civil Engineering degree from the Université Laval as well as a Project Management Professional certificate. She sits on the board of directors of the Canadian Public Procurement Council and is also a member of the Treasury Board Advisory Committee for Construction Contracts.

ROSS WELSMAN, P.ENG., PMP
Director, Atlantic Region

Originally with DCC from 1983 to 1988, Mr. Welsman rejoined DCC in 2003 as the Area Engineer for the Atlantic Region. He has worked on a number of major DCC projects such as the long-range radar station in Labrador and the Jetty 8 Improvement Project in the Halifax dockyard. Mr. Welsman earned both a Bachelor of Science and a Bachelor of Engineering (Civil) degree from Memorial University, and holds a Project Management Professional designation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.0 CORPORATE PROFILE

1.1 PROFILE

Created in 1951, Defence Construction Canada (DCC) is a Crown corporation that provides a wide variety of property-related services to support the defence of Canada. The prime beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Forces (CF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

DCC also plays a major role in projects that shape the Canadian economic and military landscape and fulfill Canada's international obligations. In the past, DCC's construction expertise has been tapped to construct the Distant Early Warning (DEW) Line across the Arctic, the northern Ontario section of the Trans-Canada Pipeline and, more recently, the Canadian Embassy in Kabul, Afghanistan.

1.2 MISSION, VISION AND VALUES

MISSION: DCC's mission is to deliver infrastructure and environmental projects and services required for the defence of Canada.

VISION: DCC's vision is to be a leading provider of innovative solutions that add value for its client, foster professional development of its employees and make meaningful contributions to its industry.

VALUES: DCC's values ensure the Corporation can continue to meet the requirements of DND and the CF in Canada and abroad. Those values include the following:

Dedication: DCC is dedicated to supporting DND's infrastructure and environment requirements. For almost 60 years, DCC employees have dependably and diligently carried out that mission.

Fairness: DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common objectives of all parties.

Competence: DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

On September 22, 2009, the Honourable Peter MacKay, Minister of National Defence, visited CFB Trenton to announce six defence infrastructure investments for 8 Wing Trenton. Shown here is Minister MacKay shaking hands with contractor Mike Drew, Project Manager, Gay Company Limited. Behind the Minister is Siva Gnananayakan, DCC Manager, Operations with Major B.P. (Phil) Baker, 8 Wing Construction Engineering Officer.

1.3 DCC'S CLIENT

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence headquarters is DCC's principal point of contact for the centrally managed capital construction and environmental programs. As the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their respective facilities, DCC also has significant dealings with their organizations, primarily at the base, wing and station levels. DCC supports CF operations as requested by Canadian Operational Support Command, Canadian Expeditionary Forces Command and Canada Command.

Some of the smaller DND organizations for which DCC also contracts for—and manages—construction and environmental services include the Canadian Forces Housing Agency, Defence Research and Development Canada, and the Canadian Forces Personnel Support Agency. The Corporation also supports the country's North Atlantic Treaty Organization (NATO) allies with training programs and facilities in Canada.

DCC will respond to requests for support within the scope of its mandate from other government departments and agencies with roles in Canada's changing defence environment.

1.4 CONTRACTORS AND CONSULTANTS

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends in the construction industry. In addition to maintaining formal exchanges with the Canadian Construction Association and its provincial and trade counterparts, DCC employees interact with contractors on job sites every day. These discussions help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its contractor partners.

DCC also maintains relations with other groups, such as the Association of Canadian Consulting Engineering Companies-Canada, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute, as well as industry organizations for a variety of non-construction services.

2.0 CAPABILITIES TO DELIVER RESULTS

2.1 CORE CHARACTERISTICS

There are five characteristics that allow DCC to deliver quality service consistently. These have a direct impact on the viability of the Corporation.

FOCUS: DCC has had a single focus on a major client for almost 60 years, developing an understanding of the client's needs and preferred approaches. That makes DCC unlike any other organization of its size in either the private or public sector.

SERVICE: Standing between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

DELIVERY: DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

FLEXIBILITY: DCC manages its staff and administers projects with efficiency and flexibility equal to that of the private sector.

VALUE: DCC has consistently provided cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

2.2 OPERATING STRUCTURE

DCC's head office is located in Ottawa. The Corporation has four regional offices (Atlantic, Quebec, Ontario and Western), an office to serve National Defence headquarters and the North, and 38 site offices located wherever there are CF bases, wings or area support units. In addition, DCC maintains remote offices in the Arctic as required for the DEW Line Clean-Up and overseas in support of CF deployments.

3.0 STRATEGIC INITIATIVES

DCC's Corporate Plan identifies five planning themes—corporate governance and leadership, people, stakeholder relationships, service delivery and business management—that inform the organization's strategic initiatives.

The following is a summary of DCC's progress in 2009–10 with respect to initiatives identified under these themes.

THEME CORPORATE GOVERNANCE AND LEADERSHIP

OBJECTIVE To provide strong and ethical leadership for the Corporation.

INITIATIVE Demonstrate the effectiveness of industrial security by conducting an internal audit and implementing recommendations. The results will be reported to the Board of Directors.
DCC completed this strategic initiative in 2009–10 by developing and implementing a security action plan that both the Office of the Auditor General (OAG) and the Board of Directors examined. The Corporation conducted an internal audit and reported it to the Audit Committee of the Board of Directors. DCC has acted on all recommendations. The Corporation identified a further initiative regarding industrial security in the 2010–11 Corporate Plan to maintain the profile on security.

THEME PEOPLE

OBJECTIVE To maintain a skilled, professional workforce.

INITIATIVES Complete implementation of the recruitment and retention strategy.
This initiative met several milestones. DCC successfully implemented the employee referral and strategic recruiting programs, and developed and administered an employee engagement survey. The Corporation prepared an action plan based on the recommendations that emerged from the survey and began carrying out related tasks. The senior management team approved the concept and key messages for an employer brand. DCC completed and initiated a project plan for carrying out communications activities that foster internal employee retention and support external recruitment.

Document corporate human resources strategies and planning practices.
Although DCC already had functioning and practical human resources (HR) practices in place, practices such as performance management, leadership training, and learning and development had not been refined or formally delivered. Responding to a recommendation by the OAG in the 2008 Special Examination, DCC thoroughly reviewed all of its existing HR programs and practices, and incorporated the results of the review into an HR strategy directly related to the Corporation's strategic goals.

THEME SERVICE DELIVERY

OBJECTIVE To meet client requirements.

INITIATIVE **Implement recommendations of process review and industry consultations.**
Last year, the Corporation solicited feedback from the architectural, engineering and construction industries. The aim was to identify barriers to effective partnerships in the delivery of defence projects, as well as to gather suggestions for improving DCC processes, procedures and practices to foster industry interest in defence business opportunities. This survey very positively supported DCC's process, but respondents also made valuable suggestions. DCC analyzed the results, noted the relevant suggestions, implemented the simple ideas immediately and set a plan in place to carry out the more complex recommendations.

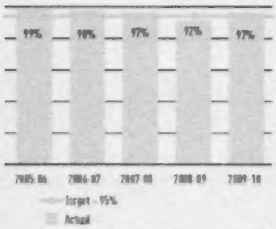
THEME BUSINESS MANAGEMENT

OBJECTIVE To support service delivery capability.

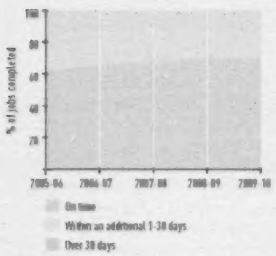
INITIATIVES **Complete the development of the records and document management system.**
In the first half of the fiscal year, DCC confirmed its requirements and developed a plan for a standard, shared, corporate-wide document management system. In the second half of the fiscal year, DCC issued a public request for information for procurement of this system and then created a project team that is currently evaluating vendor responses, defining a common corporate electronic file structure and cleansing existing electronic files. The project team will select a preferred vendor by the end of the first quarter of fiscal 2010–11. DCC expects to implement this initiative over the course of several years and to achieve full capability by the end of fiscal 2011–12.

Develop an information technology (IT) strategic plan.
In its 2008 Special Examination of DCC, the OAG recommended that the Corporation develop a separate IT strategic plan that will help DCC identify and assess future IT requirements. Building on an analysis completed during the first six months of 2009–10, DCC developed the strategic plan and the executive management group approved it.

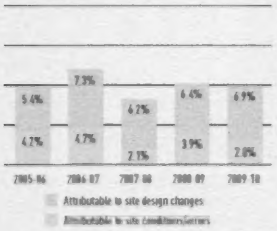
Service delivery



Timeliness of construction contract completions



Change order values
Percentage of total award value



4.0 STRATEGIC AND OPERATIONAL PERFORMANCE INDICATORS

4.1 SERVICE DELIVERY

Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks service delivery as one of its key performance indicators. DCC interviews clients individually, in person, once a year. Each client has the opportunity to comment on the service DCC provided on all projects in which the client was involved.

In 2009–10, DCC conducted service delivery surveys with 233 client representatives. It weighted scores according to the value of each service-level arrangement (SLA). For example, a score based on an SLA valued at $1 million is weighted more heavily than a score based on an SLA valued at $10,000. Service delivery ratings are based on a scale of one to five. A score of three means DCC met expectations and a score of four or five means DCC surpassed expectations. During 2009–10, 97% of clients indicated DCC met or exceeded their expectations, with 67% rating DCC's service at four or more out of five and 30% offering scores of between three and four.

DCC considers all feedback received during this process and takes swift action where required, especially when a client gives DCC a score of less than three. Each year, DCC receives a range of feedback. In 2009–10, there were no consistent areas of concern.

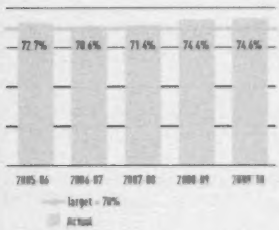
TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

Timely completion of projects is a key component of client satisfaction. DCC monitors the timeliness of construction contract completions, and works with clients and contractors to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons and takes all necessary action to ensure that the project is completed as quickly as possible, to minimize the impact on DND. In 2009–10, 70% of construction contracts were finished by the established completion date, which is exactly on target with corporate expectations. Another 13% were completed within 30 days of the established contract completion date, and 17% were completed thereafter.

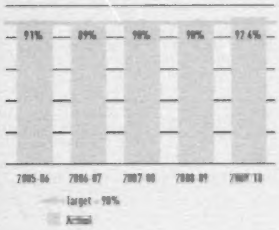
CHANGE ORDER VALUES

The change in total award value for 2009–10 was 9.7%, an improvement of 0.6 percentage points from the figure of 10.3% in 2008–09. Of the 9.7% increase, 6.89 percentage points related to design changes and 2.82 percentage points related to site conditions. Although formal targets are not set for this indicator, DCC tracks this information in order to inform the client and to help facility users manage any schedule risks associated with construction.

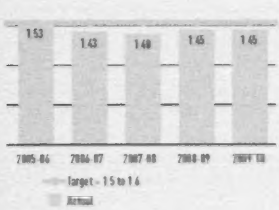
Utilization rate
Percentage of employee hours spent on client contract work



Retention rate



Direct personnel expense multiplier



4.2 UTILIZATION

The utilization rate indicates the hours spent on service delivery functions, as opposed to administrative overhead functions. It is an important performance indicator, as well as a key financial management tool. DCC's target utilization rate is 70%. In 2009–10, the utilization rate was 74.6%, a small increase from the previous year's rate of 74.4%, as the Corporation sustained its management focus on operational efficiency and productivity at all levels of the organization.

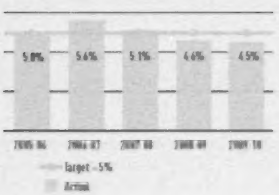
4.3 RETENTION RATE

DCC's success depends on its ability to put the right people in the right place at the right time. To that end, it is critical to recruit and retain the types of employees needed to guarantee a high level of service to DND. There will always be some turnover of staff, due to the seasonal and geographically cyclical nature of DCC's work. In 2009–10, DCC exceeded its retention rate target of 90% to reach 92.4%, an increase of 2.7 percentage points from 2008–09. Competition for labour decreased in the western provinces, where it had hindered retention efforts in fiscal 2008–09.

4.4 DIRECT PERSONNEL EXPENSE MULTIPLIER

The direct personnel expense multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. The target range for this indicator is between 1.50 and 1.60. With increased business volumes, the Corporation has been able to minimize billing rate increases over the past several years while still generating sufficient funds to meet its operating needs. As a result, the DPEM remained below the targeted range in both the current and previous fiscal years. The multiplier in both these years was 1.45.

Professional development to salary cost ratio



4.5 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

DCC's ability to serve DND is heavily dependent on the skills of its employees. Therefore, training and development are high priorities. Starting in fiscal 2009–10, DCC developed a new performance indicator for training and development that is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of total salary cost. On this basis, DCC has established a target for spending on training and development of 5% of salary costs. The actual percentage was 4.5% in fiscal 2009–10 and 4.6% in fiscal 2008–09. Although the target is 5%, the actual rate may vary from year to year, depending on the effort expended to develop and maintain the internal course curriculum.

4.6 TIMELINESS OF PROCUREMENT

		2009–10		
CONTRACT TYPE	TARGET (DAYS)	NUMBER OF REQUESTS	PERCENTAGE ON TARGET	MEDIAN (DAYS)
CONSTRUCTION				
Regular	35	207	39.6%	39
Tender boards	25	433	47.8%	26
Quick-response tenders	14	143	58.0%	14
CONSULTANTS				
SELECT	25	170	39.6%	29
One-step RFPs	60	71	32.4%	78
Two-step RFPs	120	8	0%	164

DND wants to begin work as soon as possible after receiving project approval, making timeliness of procurement a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement. The targets represent a reasonable length of time from the receipt of a procurement request from DND to the awarding of the contract. DCC attempts to meet these aggressive targets on 50% of procurements. Factors that affect performance against the targets include the availability of funding or bid documents, bid anomalies, and changes to the scope of the work during the procurement process. Additional time required as a result of these factors is not included in the targets and accounts for the variance. To date, DCC has awarded construction contracts within 11 days of tender close, on average, which the industry considers a very reasonable timeframe.

4.7 SUCCESSFUL CONTRACTS

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 93.4% of DCC tender calls had resulted in the award of a contract. This figure compares with 95% in 2008–09, 95.1% in 2007–08, 94.7% in 2006–07 and 93.6% in 2005–06. The most frequent reason why a tender does not result in a contract is that the tender price exceeds the approved budget amount.

4.8 LEGAL CLAIMS

DCC's efforts to resolve contract disputes are reflected in the value of contract claims before the courts. For the 2009–10 period, six claims were settled for a total value of $447,534.

As at March 31, 2010, there were 14 ongoing claims, including two under appeal, with a total value of $7,635,276, compared with 12 ongoing claims with a total value of $6,640,209 at March 31, 2009. The financial risk associated with contractual claims is managed by DND and does not have any financial impact on DCC.

5.0 RISK MANAGEMENT

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within DCC's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize risk. The framework is integrated into the Corporation's strategic planning process to ensure high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

The Risk Management Committee, composed of the President, Senior Vice-Presiden and Vice-Presidents, establishes the overall risk mitigation strategy. The management team is responsible for implementing actions that will mitigate risks while promoting awareness of risk management among employees. At the same time, sound risk management practices are embedded in DCC's corporate culture. Staff members are expected to identify risks and deal expediently with issues and problems. When necessary, they ask senior managers for guidance and assistance regarding operating risks.

DCC balances risks with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach includes sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

5.1 ENVIRONMENTAL RESPONSIBILITIES

To mitigate DCC's impact on the environment, the Board of Directors and senior management group of DCC are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all work sites, and define the types of environmental incidents that employees must report. No such incidents occurred in 2009–10 (there were also no such incidents in 2008–09).

DCC continues to implement environmental incident reporting criteria that are harmonized with DND's criteria for spill reporting.

5.2 MAINTAINING A SAFE WORK ENVIRONMENT

Occupational health and safety are primary concerns at DCC, and the Corporation invests in safety-related communications and training.

Progress highlights of DCC's safety program in 2009–10 include the ongoing revision of health and safety policies and processes, and improvements to the structure of site health and safety committees to ensure consistent application of, and reporting on, workplace safety initiatives. DCC launched an electronic accident reporting system that focuses on preventing workplace accidents and allows DCC to identify potential areas of concern. The Corporation upgraded its Health and Safety Manual to better comply with Part II of the Canada Labour Code. It also moved the date of the annual health and safety orientation to coincide with North American Health and Safety Week in November.

The number of lost-time injuries decreased from seven in 2008–09 to two in 2009–10. These two injuries accounted for seven days (52.5 hours) of lost time, a decrease from the figure of 97.7 days (732.75 hours) last year. However, accidents that occurred in 2008–09—primarily, one major incident—accounted for 277 days (2,077.5 hours) of lost time in 2009–10.

5.3 BUSINESS CONTINUITY

DCC has identified critical areas of the organization's operations and has developed business continuity plans at all levels of the organization. If an incident affected DCC's ability to provide normal daily services, these plans would help the Corporation reduce the impact of a disruption in service; ensure the continuing health and safety of all its employees; minimize any potential loss of revenue; and ensure the continuation of DCC's operations.

In 2009–10, DCC worked closely with Public Safety Canada to support the Government of Canada's efforts to prepare for an H1N1 pandemic. DCC fulfilled all government requirements to identify and prioritize critical services, communicate health and safety concerns and procedures, develop loss-of-staff contingency plans, and test strategies for responding to a potential absenteeism rate of 25%.

6.0 FINANCIAL PERFORMANCE

6.1 SERVICES REVENUE

Services revenue was $89.7 million in 2009–10, an increase of $18.1 million or 25% from the previous year. Approximately 21 percentage points of the increase related to the rise in business activity due to higher demand for services and approximately 4 percentage points related to the increase in billing rates.

CONSTRUCTION SERVICES REVENUE

Revenue from Construction Services increased in 2009–10 by 31% over the previous year, driven by a combination of factors that included rising business volume, higher billing rates, and changes in the nature and size of individual construction projects and the effort required to manage them.

PROJECT AND PROGRAM MANAGEMENT SERVICES REVENUE

Project and Program Management Services revenue increased by 11% in 2009–10, driven by a rise in billing rates and growing demand for these services.

ENVIRONMENTAL SERVICES REVENUE

Environmental Services revenue rose in 2009–10 by 31% over the previous fiscal year, driven by higher billing rates, increased demand and the growth of the service delivery team. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

CONTRACT SERVICES REVENUE

Revenue from Contract Services increased during 2009–10 by 4% over the previous year, due mainly to increases in billing rates. The overall value of contracts that Contract Services awarded increased in 2009–10 over the previous year, as did individual contract values; however, the number of contracts awarded actually decreased, so the level of overall activity remained more or less constant with the previous year.

REAL PROPERTY MANAGEMENT SERVICES REVENUE

Revenue from Real Property Management Services increased by 196%, reflecting a marked increase in demand for services related to facility and portfolio management and reclassification and consolidation of real property-type contract work from other service lines.

SERVICES REVENUE, BY SERVICE LINE

(in thousands of dollars)	2009-10	2008-09		CHANGE
Construction Services	$ 44,390	$ 33,849	$ 10,541	31%
Project and Program Management Services	20,888	18,759	2,129	11%
Environmental Services	12,485	9,506	2,979	31%
Contract Services	8,717	8,385	332	4%
Real Property Management Services	3,174	1,071	2,103	196%
	$ 89,654	$ 71,570	$ 18,084	25%

6.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries rose to $57.9 million in 2009–10, an increase of $11 million or approximately 24% over the previous fiscal year. Growth in the number of employees, due to higher levels of business activity, accounted for approximately 21 percentage points of the increase, whereas a combination of salary increases and employee mix accounted for the remainder.

Employee benefits rose to $16.6 million in 2009–10, an increase of $3.5 million or approximately 26% over 2008–09. This increase was largely related to the rise in salaries and to the higher cost of certain benefits, primarily those related to extended health care and pension plans. As a percentage of salary, benefits represented 28.7% of salary cost, an increase of 0.6 percentage points over the previous year.

SALARIES AND EMPLOYEE BENEFITS

(in thousands of dollars)	2009–10	2008–09		CHANGE
Salaries	$ 57,909	$ 46,888	$ 11,021	24%
Employee benefits	16,643	13,181	3,462	26%
	$ 74,552	$ 60,069	$ 14,483	24%
Employee benefits as a percentage of salaries	28.7%	28.1%	0.6%	

OPERATING AND ADMINISTRATIVE

Operating and administrative expenses were $7.9 million for 2009–10, an increase of $795,000 or approximately 11% over the previous year. A variety of factors influenced these expenses.

- Rent expenses increased by approximately 19% because DCC procured additional office space at regional and head office locations to accommodate growth in personnel, and because leasing costs rose at certain locations.
- Employee training and development costs increased by 26%, due to the rising number of employees. Expressed as a percentage of salary cost, the external costs for training and development activities in 2009–10 were 2.1%, which is consistent with the previous year.
- Professional services expenses rose by about 35%, due to increased spending on consulting services related to information technology, human resources, industrial security and communications.
- Telephone and data communications costs increased by 9%. There was significant growth in business activity and the number of employees.
- Travel costs rose by 7%. Employees travelled more, due to increased business activity and the development of service lines, compared with the previous year.
- Office services, supplies and equipment expenses decreased by 3% because spending on leasehold and office improvements fell.
- Staff relocation costs decreased by approximately 54%. This significant decrease was the result of a drop in the number of staff relocations. In any given year, the level of relocation activity is not necessarily tied to the overall volume of business.
- Software maintenance costs rose by 36%, due to increased licensing fees for desktop software for staff computers.
- Printing and stationery costs rose by 49%, due to a combination of increased staff, rising prices and increased business activity.
- Client services and communications costs increased by 78%, due to increased spending on intranet enhancements, strategic initiatives such as the employer branding exercise and the completion of projects related to the internal communications strategy.
- Leased office equipment expenses decreased by 10%, because certain equipment leases expired.
- Office furniture and equipment costs decreased by 7%, due to slower growth in employee numbers compared with the previous year.
- Recruiting costs decreased by 25%, due to lower recruitment activity in 2009–10 and to the Human Resources department's use of a new applicant tracking system to manage recruiting activities more efficiently.
- Computer software and equipment expenses were consistent with those last year.

OPERATING AND ADMINISTRATIVE

(in thousands of dollars)	2009–10	2008–09		CHANGE
Rent	$ 2,109	$ 1,775	$ 334	19%
Employee training and development	1,228	971	257	26%
Professional services	1,184	874	310	35%
Telephone and data communications	788	724	64	9%
Travel	579	539	40	7%
Office services, supplies and equipment	509	524	(15)	-3%
Staff relocation	279	613	(334)	-54%
Software maintenance	197	145	52	36%
Printing and stationery	187	125	62	49%
Client services and communications	174	98	76	78%
Leased office equipment	143	159	(16)	-10%
Office furniture and equipment	123	132	(9)	-7%
Recruiting	118	158	(40)	-25%
Computer software and equipment	102	102	0	0%
Other	205	191	14	7%
	$ 7,925	$ 7,130	$ 795	11%

AMORTIZATION

Amortization decreased by 11% or $114,000 in fiscal 2009–10, due to a combination of lower capital expenditures and a change in the method of calculating amortization. Capital expenditures for 2009–10 decreased $270,000 or 20% from the previous year. Beginning in fiscal 2009–10, DCC calculated amortization on a monthly pro-rated basis, based on the month of acquisition. Previously, DCC took a full year of amortization in the year of acquisition, regardless of the month of purchase.

AMORTIZATION

(in thousands of dollars)	2009–10	2008–09		CHANGE
Amortization	$ 939	$ 1,053	$ (114)	-11%

6.3 NET INCOME AND COMPREHENSIVE INCOME

The net income and comprehensive income for the year ended March 31, 2010 was $6.3 million, compared with a net income and comprehensive income of $3.5 million in the previous year. The significant improvement in operating results was due to a combination of factors, including significantly higher services revenue, which increased 25% during the year; a better gross margin rate; and a decrease of 1 percentage point in operating costs, expressed as a percentage of revenue.

NET INCOME AND COMPREHENSIVE INCOME

(in thousands of dollars)	2009–10	2008–09		CHANGE
Net income and comprehensive income	$ 6,311	$ 3,472	$ 2,839	82%

6.4 LIQUIDITY AND CAPITAL RESOURCES

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and its stated mandate will continue for the foreseeable future. DCC's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements, and to settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND.

To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions, and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to exceed operating requirements are returned to the client through the setting of billing rates for future services.

CASH

The Corporation does not have segregated cash reserves. When appropriate, cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The cash balance at March 31, 2010, was $17.5 million, an increase of $9.5 million or 120% from the previous year. During fiscal 2009–10, the Corporation generated $10.6 million in cash from operating activities and spent $1.1 million on capital expenditures.

DUE FROM RELATED PARTIES

On March 31, 2010, the amount due from related parties was $16.2 million, which represents an increase of $828,000 or 5% over the previous year. The increase was due to higher revenues in 2009–10, compared with the previous year. The average period that accounts were outstanding was 59 days at March 31, 2010, which is consistent with fiscal 2008–09.

CURRENT LIABILITIES

Current liabilities were $8.1 million at March 31, 2010, an increase of $1.3 million or 19% from March 31, 2009. The variance is primarily attributable to an increase of $1.3 million in the accrual amount associated with salary, vacation, furlough and overtime expenses, as a result of the significant growth in personnel; and a rise in the amount due to related parties and trade accounts payable, due to the increased level of business activity. Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits and the timing of expenses (both the time expenses are incurred and the time they are paid).

LIQUIDITY AND CAPITAL RESOURCES

(in thousands of dollars)	2009–10	2008–09		CHANGE
Cash	$ 17,493	$ 7,962	$ 9,531	120%
Due from related parties	$ 16,170	$ 15,342	$ 828	5%
Current liabilities	$ 8,146	$ 6,849	$ 1,297	19%

6.5 PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2010, was $15.3 million, an increase of $3 million or approximately 24% from the previous year. The balance increased by the amount of benefits accrued in the current fiscal year ($3.4 million) and decreased by the amount of benefits paid in the current year ($411,000). The provision for employee future benefits fluctuates from year to year due to a combination of factors, including the inflation rate; workforce changes; changes in the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes to the average expected remaining service lifetime of active employees, due to changing demographics. Note 7 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily long-term in nature and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

(in thousands of dollars)	2009–10	2008–09		CHANGE
Provision for employee future benefits	$ 15,332	$ 12,343	$ 2,989	24%
Less: Current portion	235	361	(126)	-35%
Long-term portion	$ 15,097	$ 11,982	$ 3,115	26%

6.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for fiscal 2009–10 totalled $1.1 million, a decrease of $270,000 or 20% from the previous year. The decrease was mainly due to lower requirements for leasehold improvements and for office furniture and equipment. The Corporation spent more on software and computer equipment to meet the needs of new employees and to update older information technology infrastructure.

CAPITAL EXPENDITURES

(in thousands of dollars)	2009–10	2008–09		CHANGE
Software	$ 112	$ 53	$ 59	111%
Computer equipment	679	520	159	31%
Furniture and equipment	218	380	(162)	-43%
Leasehold improvements	55	381	(326)	86%
	$ 1,064	$ 1,334	$ (270)	-20%

6.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table indicates the Corporation's actual performance in fiscal 2009–10, compared with the projections in the Corporate Plan.

Services revenue was $14 million or 19% above plan, due mainly to higher-than-planned business volume.

Interest revenue was $221,000 or 75% below plan. This variance was primarily due to lower-than-planned interest rates during the year.

Salaries and employee benefits were $8.5 million or 13% higher than plan. This increase was largely the result of higher-than-planned staff growth and salary and benefit increases. Operating and administrative expenses were consistent with plan.

Amortization was $291,000 or 24% lower than plan. Although capital expenditures were slightly lower than plan, the change in amortization policy in the year produced a lower amortization expense.

The significant variation in net income and comprehensive income compared with plan is the result of three major factors: higher-than-planned revenues; a better gross margin rate; and a decrease in operating and administrative expenses, expressed as a percentage of revenue.

Capital expenditures were $495,000 or 32% below plan, due to the deferral of projects related to leasehold improvements and lower requirements for office furniture and equipment.

ACTUAL PERFORMANCE VERSUS PLAN

(in thousands of dollars)	ACTUAL 2009–10	PLAN 2009–10		CHANGE
Revenue				
Services	$ 89,654	$ 75,631	$ 14,023	19%
Interest	73	294	(221)	-75%
	89,727	75,925	13,802	18%
Expenses				
Salaries and employee benefits	74,552	66,082	8,470	13%
Operating and administrative	7,925	7,889	36	1%
Amortization	939	1,230	(291)	-24%
	83,416	75,201	8,215	11%
Net income and comprehensive income	$ 6,311	$ 724	$ 5,587	
Capital expenditures	$ 1,064	$ 1,559	$ (495)	-32%

6.8 FUTURE ACCOUNTING CHANGES

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises, must prepare and report their financial statements using International Financial Reporting Standards (IFRS). As a result, IFRS will replace Canadian generally accepted accounting principles (CGAAP). The Corporation's first IFRS-compliant financial statements will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information must be provided for the year ending March 31, 2011. Consequently, DCC will effectively move to IFRS on April 1, 2010, the first day of the comparative period.

DCC is implementing IFRS in three phases.

PHASE ONE: PRELIMINARY SCOPING AND DIAGNOSTIC IMPACT ASSESSMENT

To prepare for the conversion to IFRS, the Corporation engaged an independent international accounting firm in April 2008 to analyze the potential impacts of adopting IFRS on the Corporation's financial statements, and to provide general guidance and direction to the Corporation on the adoption of and conversion to IFRS.

In addition, management and the financial staff responsible for maintaining accounting policies, financial records and financial statements have been increasing their competencies and knowledge of IFRS through participation in various seminars and training sessions, as well as through study and research using related materials and reference books.

The Corporation has done a preliminary assessment of the impact of adopting IFRS. The work completed to date indicates that the differences identified are not expected to have a material impact on the Corporation's reported results and financial position but are likely to affect the type and amount of information that DCC will disclose in the notes to the financial statements.

PHASE TWO: DETAILED ANALYSIS AND DESIGN

This phase involved the detailed assessment—from accounting, reporting and business perspectives—of the changes the conversion to IFRS will cause. During this phase, DCC analyzed the differences in policy under CGAAP and IFRS that affected the Corporation's financial reporting.

Other than possible additional financial statement disclosures, the conversion to IFRS will have little or no impact in the following areas: cash due from related parties, prepaids, advances and accounts receivable, intangible assets, accounts payable and accrued liabilities, due to related parties and revenue recognition.

The Corporation has identified only a few areas of difference between IFRS requirements and DCC's existing CGAAP policies. The most significant ones are property, plant and equipment, employee future benefits, and leases.

As part of the detailed analysis, the Corporation is still assessing the impact of conversion, if any, on information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and business activities, however, to date, no significant issues or concerns have been identified.

PHASE THREE: EXECUTION

This phase involves applying the policy choices available under IFRS and made in Phase Two while preparing the financial statements. DCC expects to complete this work by the end of fiscal 2010–11. By the end of the second quarter of fiscal 2010-11, the Corporation will prepare an IFRS compliant balance sheet as at April 1, 2010, being the first day of the comparative period for IFRS reporting, for examination and audit by the Office of the Auditor General, in preparation for the first full year of IFRS reporting in fiscal 2011-12.

IMPACT OF IFRS ON THE 2011 FINANCIAL STATEMENTS

The following table outlines expected differences between IFRS requirements and DCC's existing CGAAP policies, along with their estimated directional impact on financial reporting in 2011–12 (and restated 2010 comparatives). The table highlights the differences management considers the most relevant but should not be viewed as an all-encompassing list at this time.

In situations where the IFRS permitted choices, the Corporation selected those that management believed best reflected the Corporation's circumstances.

AREAS OF IMPACT

STANDARDS	Comparison between CGAAP and IFRS	Preliminary findings
Property Plant and Equipment (IAS 16 and IFRS 1)	CGAAP: The historical cost model is required. Assets are recorded at cost upon initial acquisition and are amortized over their useful lives. IFRS: After initial recognition, there is the option to measure property, plant and equipment using the cost model or the revaluation (mark-to-fair-market value) model.	At initial conversion, under IFRS 1, the Corporation could choose to use historical cost as the basis of market value or to revalue assets to market value. Management chose to use historical cost as the open value under IFRS. After initial conversion, the Corporation will continue to use the cost model. This will have no impact on DCC's financial statements. IAS 16 does, however, require extensive additional disclosure in the financial statements.
Employee Future Benefits (IAS 19 and IFRS 1)	CGAAP: Gains and losses related to defined benefit obligations are recorded using the 10% corridor approach. IFRS: Gains and losses related to the revaluation of defined benefit obligations can be recorded using the 10% corridor approach or can be immediately recognized in other comprehensive income.	IFRS 1 permits the Corporation to reset the actuarial gains and losses to zero by recognizing the full amount in the retained earnings of the opening IFRS balance sheet. The Corporation has not made the final determination yet; however, DCC will likely use the exemption and reset actuarial gains and losses to zero. As for using the corridor method or immediate recognition under IAS 19, the Corporation will likely use the immediate recognition method and recognize actuarial gains and losses in other comprehensive income in the year it incurs them.
Leases (IAS 17)	CGAAP: Quantitative guidelines distinguish between operating leases and capital (financing) leases. Leases are treated as financing if, at the inception of the lease: • there is reasonable assurance that the lessee will obtain ownership of the asset at the end of lease term or if a bargain purchase option exists; • the lease term is 75% or more of the economic life of the assets; or • the present value of the minimum lease payments is 90% or more of the fair value of the lease asset at the inception of the lease. IFRS: There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination.	The Corporation has determined that there are instances where assets considered operating leases for CGAAP purposes may be treated as financing leases under IFRS. The Corporation is currently determining the net impact. If the lease is classified as a financing lease, that will increase the assets and liabilities in the opening IFRS balance sheet.

QUANTITATIVE IMPACT OF UNAMORTIZED AMOUNTS RELATED TO EMPLOYEE FUTURE BENEFITS

At the end of 2008–09, the unamortized actuarial gain was $626,735, and at the end of 2009–10 it was $852,503. As per IFRS 1, the Corporation has the option of recognizing the unamortized actuarial gain for employee future benefits in the year of transition and to eliminate the unamortized balance. The likely impact to opening retained earnings of the comparative year, 2009–10 fiscal year, in the 2010–11 financial statements is $626,735 and an impact to other comprehensive income for the comparative year 2009-10 will be $225,768 to eliminate the unamortized actuarial gain related to employee future benefits.

6.9 FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(in thousands of dollars)	2009–10	2008–09	2007–08	2006–07	2005–06
Revenue					
Services	$ 89,654	$ 71,570	$ 55,458	$ 47,826	$ 42,481
Interest	73	154	258	265	164
	89,727	71,724	55,716	48,091	42,645
Expenses					
Salaries and employee benefits	74,552	60,069	49,343	42,592	35,310
Operating and administrative	7,925	7,130	6,228	5,845	5,108
Amortization	939	1,053	851	881	769
	83,416	68,252	56,422	49,318	41,187
Net income (loss) and comprehensive income (loss)	$ 6,311	$ 3,472	$ (706)	$ (1,227)	$ 1,458
Retained earnings, beginning of year	6,858	3,386	4,092	5,319	3,861
Retained earnings, end of year	$ 13,169	$ 6,858	$ 3,386	$ 4,092	$ 5,319

CONT.→

(in thousands of dollars)	2009–10	2008–09	2007–08	2006–07	2005–06
Assets					
Cash	$ 17,493	$ 7,962	$ 6,135	$ 7,845	$ 7,295
Due from related parties, prepaids, advances and accounts receivable	16,984	15,917	9,847	7,850	7,648
Property, plant and equipment	1,824	1,700	1,413	1,345	1,197
Intangible assets*	111	110	116	250	286
Total assets	$ 36,412	$ 25,689	$ 17,511	$ 17,290	$ 16,426
Liabilities					
Accounts payable, related parties and accrued liabilities	$ 7,911	$ 6,488	$ 4,112	$ 4,885	$ 4,216
Provision for employee future benefits	15,332	12,343	10,013	8,313	6,891
Total liabilities	23,243	18,831	14,125	13,198	11,107
Share capital and retained earnings					
Common shares	–	–	–	–	–
Retained earnings	13,169	6,858	3,386	4,092	5,319
Total shareholders' equity	13,169	6,858	3,386	4,092	5,319
Total liabilities and shareholders' equity	$ 36,412	$ 25,689	$ 17,511	$ 17,290	$ 16,426
Cash flows from					
Operating activities	$ 10,595	$ 3,161	$ (925)	$ 1,543	$ 2,891
Acquisition of property, plant and equipment and intangibles	(1,064)	(1,334)	(785)	(993)	(748)
Increase (decrease) in cash during the year	9,531	1,827	(1,710)	550	2,143
Cash, beginning of year	7,962	6,135	7,845	7,295	5,152
Cash, end of year	$ 17,493	$ 7,962	$ 6,135	$ 7,845	$ 7,295

* Includes computer software costs that are reported as intangible assets starting in fiscal 2009-10. These costs were previously reported as part of property, plant and equipment.

7.0 OUTLOOK

Providing cost-effective service, protecting the interests of the Crown and generating value for Canadians have always been key DCC goals. Employees at all levels of the Corporation are aware of the importance of adhering to Government of Canada spending practices, particularly in this time of restraint. Both Public Works and Government Services Canada, and the Department of National Defence, will conduct a strategic spending review in 2010–11. DCC stands ready to support the Department of National Defence, throughout this review and its outcomes.

Although these strategic spending reviews aim to reduce current spending by 5%, DCC still expects the defence budget to increase over the next few years.

In keeping with the Canada First Defence Strategy and Canada's Economic Action Plan, the federal government is expected to continue to invest in defence infrastructure over the next three years. DCC, with a mandate to be the contracting and construction management authority for Canada's defence projects, will continue to provide high-quality contracting, construction management and other related infrastructure services to DND and the CF.

DCC expects that from the beginning of the 2010–11 planning period to the end of 2011–12, DND's capital construction (including equipment-driven construction) and environmental remediation programs will be the largest ever. DCC is meeting DND's current needs by managing this growth and expects to do so for the next two years. By 2012–13, DND's growth is expected to reach a plateau, and the Corporation is prepared to adjust its operations accordingly. The flexibility and agility of DCC's business model allows it to manage any fluctuations in client demand quite readily.

DND annual construction program spending has increased to over $600 million, and the client continues to turn to DCC to provide services beyond construction contract management. These types of services include project and program management support, real property management, and diverse and specialized environmental services. DCC will continue to respond directly to DND's changing requirements both at home and abroad, as it did this year by supporting military operations in Afghanistan, relief efforts in Haiti, and security requirements at the 2010 Winter Olympic and Paralympic Games in Vancouver.

To meet the challenges of the economic environment and to help the government meet its budgetary goals, DCC will promote human resource, information technology and service delivery initiatives to encourage employees to be innovative and to work together more efficiently and effectively. In upcoming planning periods, DCC will also review its management structure and management practices to ensure they are appropriate in the changing economic climate.

7.1 FINANCIAL OUTLOOK

The Corporation has traditionally taken a conservative approach to forecasting future growth. Its latest Corporate Plan shows an increase in revenue of approximately 6% for 2010–11, driven by a combination of anticipated higher business volumes and a planned increase in billing rates of approximately 1.5%.

For the remaining plan years, revenue has been forecasted to increase by approximately 8% in 2011–12, 1% in 2012–13 and 1.5% in 2013–14, and to decrease in 2014–15 by approximately 8%. Business volume is expected to increase in fiscal 2011–12, then level off in fiscal 2012–13 and 2013–14. A decrease is anticipated to start in 2014–15, when DND is expected to reduce its infrastructure program. These forecasts are all based on DND projections. Billing rates are expected to increase between 1% and 1.5% annually.

Salary and benefits expenses for 2010–11 are forecasted to increase by approximately 6% from 2009–10. This rise is due mainly to inflation and to performance-based merit increases. Workforce growth is projected to be 2% in 2010–11. The Corporation's financial forecasts assume the same increases from 2011–12 to 2013–14, and a decrease in employees in 2014–15.

Operating and administrative expenses for 2010–11 are projected to increase by 20% over 2009–10. This rise is due to a combination of inflationary increases, growing business volume, and higher projected spending on rent and certain discretionary expenses, such as employee training and development, professional fees, and business travel. For the remaining plan years, operating and administrative expenses are forecasted to increase by 10% in 2011–12, decrease by 10% in 2012–13, remain the same as 2012–13 in 2013–14, and decrease by 8% in 2014–15. The decreases in the later part of the plan are due to predicted lower growth and expected investments in capital assets, such as information systems.

Amortization is expected to increase by 66% in 2010–11 over 2009–10, due mainly to the projected rise in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization expense over the remaining years of the plan.

A net income and comprehensive income of $1.7 million is forecasted for 2010–11. In the remaining years of the plan, net income and comprehensive income is expected to decrease from $387,000 in 2011–12 to a loss of $1.5 million in 2014–15.

Capital expenditures are projected to increase by 115% in 2010–11 over the previous year. The anticipated expenditures for the year ending March 31, 2011, will primarily relate to ongoing requirements to provide computers and software to new employees; to upgrade older computer systems and software; to make leasehold improvements and buy office furniture and equipment for new facilities to accommodate the growing workforce; and to buy new software applications and solutions, particularly in relation to a new electronic document management system currently under development. Increased spending is projected in the later years of the plan in anticipation of major life-cycle upgrades to the Corporation's main computer systems and software applications.

FINANCIAL OUTLOOK

(in thousands of dollars)	2009–10 ACTUAL	2010–11 PLAN	2011–12 PLAN	2012–13 PLAN	2013–14 PLAN	2014–15 PLAN
Revenue						
Services	$ 89,654	$ 94,892	$ 102,721	$ 103,748	$ 105,304	$ 96,616
Interest	73	60	74	87	98	107
	89,727	94,952	102,795	103,835	105,402	96,723
Expenses						
Salaries and employee benefits	74,552	82,153	90,368	92,175	94,019	86,347
Operating and administrative	7,925	9,538	10,015	9,014	9,014	8,293
Amortization	939	1,560	2,025	2,315	2,836	3,604
	83,416	93,251	102,408	103,504	105,869	98,244
Net income (loss) and comprehensive income (loss)	$ 6,311	$ 1,701	$ 387	$ 331	$ (467)	$ (1,521)
Capital expenditures	$ 1,064	$ 2,292	$ 2,250	$ 2,200	$ 4,500	$ 5,000

FINANCIAL STATEMENTS

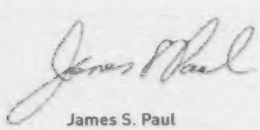
MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles using management's best estimates and judgments where appropriate. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



James S. Paul
President
and Chief Executive Officer

Angelo Ottoni
Vice-President, Corporate Services,
Chief Financial Officer and Treasurer

May 7, 2010

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2010 and the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Louise Bertrand, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 7, 2010

DEFENCE CONSTRUCTION (1951) LIMITED

BALANCE SHEET

as at March 31, 2010

(in thousands of dollars)	2010	2009
ASSETS		
Current		
Cash	$ 17,493	$ 7,962
Due from related parties (note 8)	16,170	15,342
Prepaids, advances and accounts receivable	814	575
	34,477	23,879
Property, plant and equipment (note 5)	1,824	1,700
Intangible Assets (note 6)	111	110
	$ 36,412	$ 25,689
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 7,652	$ 5,787
Due to related parties (note 8)	259	701
Current portion - provision for employee future benefits (note 7)	235	361
	8,146	6,849
Provision for employee future benefits (note 7)	15,097	11,982
	$ 23,243	$ 18,831
SHAREHOLDERS' EQUITY		
Share capital		
Authorized - 1,000 common shares of no par value Issued - 32 common shares	$ -	$ -
Retained earnings	13,169	6,858
	13,169	6,858
	$ 36,412	$ 25,689

Commitments (note 9)
Contingencies (note 11)
The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Marc Ouellet
Director

Shirley McClellan
Director

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

for the year ended March 31, 2010

(in thousands of dollars)	2010	2009
Revenue		
Services (note 8)	$ 89,654	$ 71,570
Interest	73	154
	89,727	71,724
Expenses		
Salaries and employee benefits	74,552	60,069
Operating and administrative	7,925	7,130
Amortization	939	1,053
	83,416	68,252
Net income and comprehensive income	$ 6,311	$ 3,472

STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 2010

(in thousands of dollars)	2010	2009
Retained earnings at beginning of year	$ 6,858	$ 3,386
Net income and comprehensive income	6,311	3,472
Retained earnings at end of year	$ 13,169	$ 6,858

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CASH FLOWS

for the year ended March 31, 2010

(in thousands of dollars)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income and comprehensive income	$ 6,311	$ 3,472
Items not requiring cash:		
Provision for employee future benefits	3,400	2,663
Amortization	939	1,053
	4,339	3,716
Employee severance and other non-pension benefits paid	(411)	(333)
Increase (decrease) in non-cash working capital balances related to operations:		
Due from related parties	(828)	(5,842)
Prepaids, advances and accounts receivables	(239)	(228)
Accounts payable and accrued liabilities	1,865	1,713
Due to related parties	(442)	663
	356	(3,694)
Net cash flows provided by operating activities	10,595	3,161
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangibles	(1,064)	(1,334)
Increase in cash during the year	9,531	1,827
Cash at beginning of the year	7,962	6,135
Cash at end of the year	$ 17,493	$ 7,962

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. ADOPTION OF NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

ADOPTION OF NEW ACCOUNTING STANDARDS

In February 2008, the CICA issued a new accounting standard, Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets. The standard defines the recognition and measurement criteria for intangible assets and, in particular, for intangible assets that are internally generated. Section 3064 is effective for periods beginning on or after October 1, 2008.

The standard provides guidance for the recognition of intangible assets including computer software that is not an integral part of the related hardware. Prior to the adoption of Section 3064, the Corporation recorded software costs as Property, Plant and Equipment. Except for the reclassification of computer software to intangible assets on the balance sheet, the implementation of this new section did not have a significant impact on the Corporation's financial statements.

FUTURE ACCOUNTING CHANGES

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises must prepare and report their financial statements using International Financial Reporting Standards (IFRS). As a result, IFRS will replace Canadian generally accepted accounting principles (Canadian GAAP). The Corporation's first IFRS compliant financial statements will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information must be provided for the year ending March 31, 2011.

To prepare for the conversion to IFRS, the Corporation engaged an independent international accounting firm in April 2008 to analyze the potential impacts of adopting IFRS on the Corporation's financial statements, and to provide general guidance and direction to the Corporation on the adoption of and conversion to IFRS.

The Corporation has made a preliminary assessment of the impact of adopting IFRS. The work completed to date indicates that the differences identified are not expected to have a material impact on the Corporation's reported results and financial position but are likely to affect the type and amount of information that will be disclosed in the notes to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

CASH

Cash consists of funds held in one bank account.

DUE FROM RELATED PARTIES, ADVANCES AND ACCOUNTS RECEIVABLE

Due from related parties, advances and accounts receivable are stated at amortized cost, which approximates fair value, given the short dated nature of these financial assets.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of leasehold improvements, equipment (which includes furniture) and computers (which includes hardware and software integral to the hardware). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Shorter of the lease term or useful life

In the year of acquisition, amortization is recognized starting in the month of acquisition.

INTANGIBLE ASSETS

Intangible assets consist of software and implementation costs. These assets are amortized on a straight-line basis over 3 years.

In the year of acquisition, amortization is recognized starting in the month of acquisition.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments.

Financial instrument classification is as follows:

Cash	Held for trading
Advances and accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

HELD FOR TRADING - Held for trading financial assets are measured at fair value at the balance sheet date with changes in their fair value recorded in income.

LOANS AND RECEIVABLES - Loans and receivables are accounted for at amortized cost using the effective interest method.

OTHER LIABILITIES – Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

EMPLOYEE FUTURE BENEFITS

Employees are entitled to specific severance and other non-pension benefits. The projected accrued benefit obligations are actuarially determined using the projected benefit method pro-rated on services (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial gain/loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

PENSION BENEFITS

All eligible employees of the Corporation participate in the Public Service Pension Plan (the "Plan") administered by the Government of Canada. Although the Plan is a defined benefit plan, it meets the definition of a multi-employer plan, which is accounted for as a defined contribution plan, as sufficient information is not available to account for it as a defined benefit plan. The Corporation's contributions to the Plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Plan.

REVENUE

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the service has been performed, the price to the recipient is fixed or determinable and collection is reasonably assured.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimate in these financial statements is the provision for employee future benefits. Actual results could differ significantly from this estimate.

4. CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by the Department of National Defence. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its share capital and retained earnings.

5. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)			2010
	Cost	Accumulated Amortization	Net
Equipment	$ 2,354	$ 1,833	$ 521
Computers	5,143	4,382	761
Leasehold improvements	1,409	867	542
	$ 8,906	$ 7,082	$ 1,824

(in thousands of dollars)			2009
	Cost	Accumulated Amortization	Net
Equipment	$ 2,137	$ 1,622	$ 515
Computers	5,401	4,902	499
Leasehold improvements	1,354	668	686
	$ 8,892	$ 7,192	$ 1,700

6. INTANGIBLE ASSETS

(in thousands of dollars)			2010
	Cost	Accumulated Amortization	Net
Software	$ 3,762	$ 3,651	$ 111

(in thousands of dollars)			2009
	Cost	Accumulated Amortization	Net
Software	$ 3,650	$ 3,540	$ 110

7. PROVISION FOR EMPLOYEE FUTURE BENEFITS

SEVERANCE AND OTHER NON-PENSION BENEFITS

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

(in thousands of dollars)	2010	2009
Total provision for employee future benefits	$ 15,332	$ 12,343
Less: current portion	235	361
	$ 15,097	$ 11,982

(in thousands of dollars)	2010	2009
Projected accrued benefit obligation	$ 14,479	$ 11,716
Unamortized actuarial gains	853	627
Provision for employee future benefits	$ 15,332	$ 12,343
Current year's expense	$ 3,400	$ 2,663
Benefits paid during the year	$ 411	$ 333

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2010	2009
Discount rate for projected benefit obligation	5.75%	6.00%
Average rate of general salary increases	3.50%	3.50%
Inflation rate	2.50%	2.50%
Assumed health care cost trend rate	5.00%	4.50%
Ultimate heath care cost trend rate	5.00%	4.50%
Year ultimate health care cost trend rate is reached	2010	2009
Uninsured Pensioner 1994 with mortality projections to year 2020 (UP94@2020) for 2010 and to year 2015 (UP94@2015) for 2009.	UP94@2020	UP94@2015
Retirement age	59	59

The health care cost trend rate is assumed to exceed inflation by 2.5% per annum for future years.

The measurement date for the last actuarial valuation of the accrued benefit obligation was April 1, 2010. The next actuarial valuation is planned for April 2011.

PENSION BENEFITS

The Corporation and all eligible employees contribute to the Public Service Pension Plan (the "Plan"). This Plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The current year's contributions by the Corporation to the Plan were $6,536,357 (2009 - $5,457,379). The current year's contributions by the employees of the Corporation to the Plan were $3,382,391 (2009 - $2,644,016). This increase is mainly due to the increase in employees of the Corporation.

The rates of contribution to the Plan are determined on a calendar year basis and were as follows:

	2010	2009	2008
Employees – current service:			
- On earnings up to yearly maximum pensionable earnings (YMPE)	5.5%	5.2%	4.9%
- On earnings exceeding YMPE: 2010 - $47,200, 2009 - $46,300, 2008 - $44,900	8.4%	8.4%	8.4%
Employer - expressed as a multiple of employee contributions:			
- For contributions on current and elective service on single rate employee contributions	1.94	1.91	2.02
- For elective service on double rate employee contributions	0.47	0.46	0.51
- For Retirement Compensation Arrangement (RCA) on earnings that exceed: 2010 - $139,500, 2009 - $136,700, 2008 - $130,700	8.9	7.5	7.3

8. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount which is the actual amount of the consideration given or received for the services provided. Substantially all of the Corporation's services revenue of $89,654,000 (2009 - $71,570,000) is generated from services provided to the Department of National Defence (DND). In the National Capital Region, Public Works and Government Services Canada manages DND facilities and provides funds to the Corporation to engage contractors to perform infrastructure services.

In accordance with a Memorandum of Understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings and at other locations. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

Amounts due from and to related parties at the end of the year are as follows:

(in thousands of dollars)	2010	2009
Due from:		
Department of National Defence	$ 16,105	$ 15,304
Public Works and Government Services Canada	65	38
	$ 16,170	$ 15,342
Due to:		
Department of National Defence	$ 5	$ 102
Public Works and Government Services Canada	232	590
Canada School of Public Service	20	1
Public Service Commission of Canada	2	8
	$ 259	$ 701

The aging of related party receivables at the end of the year was:

(in thousands of dollars)	2010	2009
Current (<61 days)	$ 16,094	$ 14,917
Past due (61-120 days)	33	214
Past due (>120 days)	43	211

During the year the Corporation wrote-off $1,077 (2009 - $8,560) of amounts due from related parties primarily to account for invoicing corrections.

9. LEASE COMMITMENTS

The Corporation leases office space for its operations to meet client requirements. The Corporation has entered into leases for the co-location of DND and Corporation staff to carry out joint delivery of services. These co-location leases are recoverable from DND.

The future minimum annual lease payments are as follows:

Year ending March 31:

(in thousands of dollars) 2010

	CORPORATION	CO-LOCATION	TOTAL
2011	$ 2,164	$ 2,611	$ 4,775
2012	1,901	2,611	4,512
2013	1,812	2,611	4,423
2014	1,350	2,611	3,961
2015	37	2,082	2,119
	$ 7,264	$ 12,526	$ 19,790

10. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, due from and due to related parties, advances, accounts receivable, accounts payable and accrued liabilities.

FAIR VALUE

Due from related parties, advances, accounts receivable, accounts payable, accrued liabilities and due to related parties are primarily due on demand and non-interest bearing. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets at March 31, 2010, is $16,170,000 (2009 - $15,353,000) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash with only reputable and high quality financial institutions. The Corporation has no significant exposure to credit risk on accounts receivable as substantially all of the accounts receivable are due from the Government of Canada. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer. Based on historic default rates, the Company believes that there are no requirements for an allowance for doubtful accounts.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities at March 31, 2010, is $8,146,000 (2009 - $6,849,000) and represents the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. In addition, as at March 31, 2010, the Corporation's financial assets exceeded its financial liabilities by $25,517,000 (2009 - $16,455,000).

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation's financial assets and liabilities are not exposed to any one of these market risks given their underlying nature and characteristics.

11. CONTINGENCIES

Letters of credit aggregating $50,000 (2009 - $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations estimated at $7,635,276 (2009 - $6,640,209). Additionally, there are other unspecified amounts within some claims for which the obligations to the Corporation are currently not determinable. The final outcome of such claims is not determinable. In accordance with the terms of a Memorandum of Understanding (MOU) between the Corporation and DND, settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by DND, in the year of settlement. As a result of this MOU, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to legal claims.